104

U.S.-CHINA RELATIONS: NEXT STEPS

Y 4. IN 8/16: R 27/4

U.S. China Relations: Next Steps, J...

JOINT HEARING

BEFORE THE

SUBCOMMITTEES ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

AND

ASIA AND THE PACIFIC

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

SEPTEMBER 19, 1996

Printed for the use of the Committee on International Relations

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U.S.-CHINA RELATIONS: NEXT STEPS

THURSDAY, SEPTEMBER 19, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE, AND
SUBCOMMITTEE ON ASIA AND THE PACIFIC,
Washington, DC.

The subcommittees met, pursuant to notice, at 2:35 p.m., in room 2172, Rayburn House Office Building, Hon. Toby Roth (chairman of the Subcommittee on International Economic Policy and Trade) presiding.

Mr. ROTH. This hearing is scheduled to start at 2:30 p.m., and we would like to start on time.

For the benefit of our witnesses, there are times in the legislative body that we have what is called "fun-and-games". That happens to be one of the things going on on the floor right now, but I thought we would start the hearing.

We have our members coming over. We have a vote now. We will probably have another one in about 20 minutes.

Let me say that in today's hearing we will examine the current status of relations between China and the United States, and the steps needed to put our relations on a more stable and productive path. Our witnesses here today are ideally suited to help the Congress in that respect.

This is the single biggest economic challenge that we face. I think on our planet today, one person in five is Chinese. During the 1990's, China has had the fastest growing economy in the world. More global investment is flowing into China than any other country. In 10 years, China's economy will double in size. It makes China the biggest prize in the global competition for newly emerging markets, and that is a real opportunity.

In reality, China has replaced Japan as the biggest bilateral trade problem. Moreover, China is a challenge for us on other fronts as well—weapons proliferation, threats to Taiwan, the territorial claims in Southeast Asia, to name a few. The bottom line is that China is vital to the United States both for trade and for security.

It should be clear to everyone that our current approach to China is not working. In truth, our current policy toward China is bankrupt, symbolized by the pointless annual fight over MFN. We need a new long-term strategy to put our relations on a stable, productive course. This is in our long-term national interest, I believe.

Also, my view is that we will find the keys to a more effective China policy in the private sector, not in government. Therefore, we will hear today from three experts on China who are not captured by the same old conventional bureaucratic thinking.

William Hudson, CEO of AMP, Inc., has had long involvement in trading with China. Lawrence Clarkson, a senior vice-president of Boeing, represents the company with the single greatest success in the China market. Professor Minxin Pei is one of our leading China scholars.

Gentlemen, I really appreciate you three very important witnesses coming to Capitol Hill this afternoon. I just want you to know that we have had a chance to look at your testimony. We are going to be hearing from you and asking you a few questions. It is a thrill for me when we have such an important issue as this to have three such distinguished witnesses.

We are going to start with Mr. Bill Hudson, but before I do, let me call on our chairman, Mr. Bereuter, for any comments that he may have.

Mr. BEREUTER. Chairman Roth, I join you in your enthusiastic welcome of our witnesses here today.

In June of this year, many Members of Congress who steadfastly opposed normal trade relations with the People's Republic of China stood on the House floor and said, "Nothing in China has changed." They alleged that human rights had not improved, and they asserted that China remained belligerent toward its neighbors, especially Taiwan.

I fully share the general concern about the status of PRC-Taiwanese relations. However, while I recognize there are legitimate questions to be raised regarding human rights, and that is an understatement, I do believe that there has been demonstrable progress in the PRC on a wide range of fronts and that Chinese society indeed is becoming more open.

Today we will be presented with excellent testimony from Dr. Minxin Pei, a well respected Princeton scholar, who has observed firsthand the changes in that country. Without preempting his testimony, I can say that Dr. Pei today will describe, according to his written testimony, the movement toward a more tolerant, open and free market-oriented China.

He describes a China where people can vote in village elections, sue the government and move for greater economic opportunity. It is clearly a China that greatly differs from the horrendous period of the Cultural Revolution, yet I would say to my colleagues that all of us recognize that certainly all is not well in China.

Anti-American sentiment is growing, and this summer a book entitled "The China That Can Say No" was written by the same students who were former pro-democracy rebels. Unfortunately, it has become an instant best seller.

Patrick Tyler of the New York Times recently wrote, "In the book, western countries are portrayed as stifling China's emergence as a great power, interfering in China's internal affairs over Taiwan and Tibet, and practicing a repugnant brand of moral superiority and human rights."

Some people have alleged that the Chinese Communist party put the student authors up to the task. This may or may not be the

case, but this sort of discussion misses the point. I am concerned that there are individuals in both the United States and China who seem committed to stoking the fires of animosity.

The United States and the PRC do not have to be enemies, and they are not at this point. But, it seems that there are individuals in both countries who are perfectly willing for an adversarial relationship to emerge. At the very least, we should make every effort to base our decisions on facts rather than on rumor and innuendo.

Today we will also hear from those who have witnessed the American influence that has greatly led to a positive change in China. Mr. Lawrence Clarkson and Mr. William Hudson can attest that the Chinese want our products and that they want to emulate our free-market principles.

Like Dr. Pei, they can also attest to the fact that our missteps or actions based on the false assumption that nothing has changed in China greatly undermine our ability to positively influence that country.

Perhaps it is more appropriate to say that nothing has changed in the U.S. foreign policy with China. We continue to insist on an annual review of our trade relations with China that only undermines our overall objectives with that country. We waste our precious economic and commercial leverage by engaging in threats that the PRC knows we will not implement.

My colleagues, if we continue to believe that nothing has changed in China and if we fail to update our own strategies toward that country, we stand the risk of further alienating those Chinese who favor and work for better Sino-American relations. Perhaps we should change our own perception of China as well.

Thank you, Mr. Chairman.

Mr. ROTH. Mr. Chairman, thank you for your excellent statement.

Now we are going to go to a name that is harder to pronounce than Bereuter. We are going to go to Mr. Faleomavaega. Do you have any statement to make?

Mr. FALEOMAVAEGA. John Wayne might be better, Mr. Chairman. Yes, I do have a few observations to make, if I may.

I certainly would like to commend both of you gentlemen for your respective leadership in the subcommittees that are very important in the activities of our committee.

I have been a member of this committee now for about 8 years, and I remember distinctly that before coming to the committee I was very critical of our foreign policies. The fact is that when you talk about the Asia-Pacific region, nobody seems to want to pay much attention to it. I think the mentality of our policy makers here in Washington is basically centered on Europe and the Middle East. It is the Middle East and Europe. It is Europe, the Middle East and nothing more.

I remember distinctly when I first requested to be a member of the Subcommittee on Asia and the Pacific that it was like the plague. Having members join the Subcommittee on Asia and the Pacific was really stretching it because everybody wanted to be on Europe and the Middle East. This was 8 years ago.

I think because of the very unhappy experience that we had in Vietnam, the American public has also had a very negative percep-

tion and stereotyping of the region. I guess I am being partial, Mr. Chairman, because I am from the Pacific region with very fond feelings and affection for this area.

I think our country should not neglect the fact that our trade relationship with the Asia-Pacific region far exceeds what we do now in Europe—almost twice as much, in excess of about $300 billion plus trade with this region. So, of course, China becomes very, very important in this equation.

With 1.2 billion people, how could you possibly say that this does not have some economic impact on the affairs of our country? Right next to China, of course, is the largest democracy of the world with 970 million people in India.

Mr. Chairman, I thank both of you for really giving this greater visibility in the activities of the committee and for bringing such pronounced experts, like the gentlemen we have before us today, to give us the benefit of their reasoning and their opinions as to why this country should not neglect, or should I say why this country should pay more attention to, not only to our economic interests, but to the fact that two-thirds of the world's population resides in this region of the world.

This is what really gets me. We forget the fact that these nations are very much up to par with the technology and everything that we can think about. The Asia-Pacific region ought not be neglected in the policy making process of our nation.

I welcome the gentlemen before our subcommittees, and I thank you both, gentlemen, for initiating this hearing. I look forward to hearing the testimony of these gentlemen.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you very much, John Wayne. It is good to have you with us this afternoon.

Being that we have a vote on now, I would ask the other chairman to go and vote so that we can keep the hearing moving along.

We are going to take the testimony today because of the floor action and make sure that every member of our committee has a chance to receive your testimony. I am going to take it upon myself to make sure that the testimony you put into the record goes to all of our committee members.

Let us begin with William Hudson, who is also representing The National Association of Manufacturers (NAM). Mr. Hudson, I have read your statement. I think it is very good. We respect you very much for your insight and your talent, and we are going to ask you to proceed with your testimony.

STATEMENT OF MR. WILLIAM J. HUDSON, PRESIDENT AND CEO, AMP, INC., ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. HUDSON. Thank you. Chairman Roth and Chairman Bereuter, I commend you for convening this meeting and this hearing on the future of our country's commerce with the People's Republic of China. I thank you for giving me and NAM this opportunity to present our views.

Let me start with a few comments about NAM and about AMP, Inc. NAM was founded in Cincinnati in 1895. One of NAM's earliest goals was to open markets in China for American manufactur-

ers. Today, NAM is one of the nation's premiere business organizations with over 14,000 members and offices throughout the United States. Helping American companies win new business in China and throughout the world is still one of NAM's goals.

While I am talking about NAM, let me add that I am very happy that Larry Clarkson of Boeing is part of this panel. For the past 2 years, Larry has chaired NAM's trade committee and has contributed enormously to NAM's work in this area.

My company, AMP, Inc,. was founded in 1941. It is a global company with 1995 sales of over $5.2 billion. Fifty-seven percent of that was earned from sales outside of the United States. AMP's products are electrical and electronic connectors and connection systems and also tools and machinery for applying those products. We have been in China since 1991, where we have approximately 300 full-time employees.

The people who work in our facilities in China are not taking jobs away from workers in Pennsylvania or the Carolinas or the rest of the United States. They are doing work that has to be done in China, and in doing it they are making all of AMP a stronger company.

Further, there is a favorable trade balance between our U.S. operations and China. As important as China is, China's specific policies in the business arena are almost certain to fail unless they are expressions of a broadly shared understanding of the role of American companies in the global marketplace.

To go back a bit, the fact that 57 percent of our sales are outside the United States is a statistic worthy of a moment's reflection. It is hard to think of a large American company that does not derive a significant percent of its revenue from foreign sales. For General Electric, it is 38 percent. For IBM, it is 55 to 60 percent. For Procter & Gamble it is over 50 percent, as it is for Caterpillar.

For these companies and many others, the ratio of sales abroad to total revenue is much larger than it was a decade ago and a fraction of what it will need to be a decade from now.

American companies, and indeed the American people, have a very large stake in our ability to succeed in foreign markets. One way to think about this is to contemplate what it would mean if the revenue of the Fortune 500 were cut by 30 to 60 percent, and yet it often seems that U.S. policies are not predicated on the belief that American companies need to be successful internationally. Rather, the driving assumption seems to be that international commerce is of marginal value to America, more a favor we do for others than an imperative that we undertake for our own well being and our own future.

Notwithstanding the need for some export controls and the laudable goals behind the newly minted sanctions bills, our policies in this area give short shrift to the importance of international commerce to the United States.

The Administration's recommendation that the U.S. Export/Import Bank not assist U.S. companies in connection with China's Three Gorges Dam project also bespeaks the same lack of appreciation for the need of U.S. firms to be able to win in international markets.

I would add that the consequences of decisions like this reach far into the future. The buyer that goes to a U.S. rival originally is likely to go back again and again for replacement equipment, spare parts and training. Consequently, business that might have kept Americans at work for many years goes instead to our foreign competitors.

I suspect you in Congress sometimes wonder whether those of us in business see any relationship at all between the activities of American companies abroad and other non-economic policy interests that our country has in various parts of the world. We do. Clearly, the greater the economic involvement the United States has with another country, the more influence we have, but it is influence of a special kind, and it can be easily lost if it is improperly used.

Other countries simply will not tolerate regular overt interference in their societies by U.S. leaders brandishing economic threats. Thus, frequent or casual use of U.S. economic power in today's world rapidly diminishes such power. When large issues are at stake, however, one can be sure that other governments themselves will take into account the economic leverage that the United States may have as a result of the international activities of U.S. companies.

The argument here is that policymakers should regard the foreign commerce of American firms as long-term investments. Given time, these investments can positively affect relationships between the United States and others, but they should not be bartered away for short-term policy objectives.

When disputes are purely commercial, the situation is different. Then the U.S. Government must vigorously defend U.S. interests. Tough actions such as IPR sanctions against China that were threatened earlier this year are often a necessary part of international commercial politics. Defending one's commercial interests in the integrity of trade agreements, however, is quite different from demanding immediate social and political change for the privilege of trading with the United States.

There are three points especially that we hope you will consider when you make decisions about China. They are these. China is important to the U.S. economy, American business is a positive force in China, and the importance of Sino-American economic relations will increase dramatically when Hong Kong passes from British to Chinese rule.

U.S. companies in China employ many Chinese citizens. These people work with Americans every day, interacting with us by E-mail, fax and telephone, as well as face-to-face settings. If we wish to share our values with people in China, there is no more effective way of doing so than working with them.

Moreover, my company and other American companies are exemplars in adherence to worker-safety environmental protection standards, and our work in these areas has beneficial effects on the practices of Chinese firms. The American commercial presence helps Chinese managers in these areas, and it helps introduce the role of law.

I know the Jackson-Vanik amendment and its history are very familiar to you, but let me review some of the highlights. The goal

of the amendment was to persuade the Soviet Union, a country that no longer exists, to remove barriers to the immigration of Soviet Jews.

When the United States and China negotiated a trade agreement in 1979, both sides understood that in a formal sense, the Jackson-Vanik amendment would apply to China. For a decade, though, neither country regarded the U.S. law as an obstacle; not, that is, until the events in Tiananmen Square in June 1989.

From 1990 on, the yearly granting of a Jackson-Vanik waiver for China has been a major political event in the United States. The issue has not been just China's immigration policy. The annual U.S. debate about China's Jackson-Vanik waiver has encouraged a wide variety of interests here to suggest that further trade with China should be held hostage to a laundry list of U.S. demands. Wisely, the Congress has rejected this course.

Nevertheless, this annual exercise has been quite harmful. Among other things, it has introduced a costly cyclicality into our commercial relations with China. When threatened with the withdrawal of MFN, that is with punitively high tariffs in the United States, China has responded with actions designed to show the United States that it has ultimate sources of supply for the things that it buys from the United States.

China's highly publicized purchase this past April of airplanes from Airbus Industry may be the most recent vivid example of this kind of cyclicality. There is something wrong when a predictable, even if unintended, consequence of U.S. policy is to undercut American exporters.

The process has made American firms hostages of the vagaries in Sino-American government relations, and it has led to the Chinese, understandably, to regard U.S. firms as less reliable suppliers than others.

Finally, the annual MFN renewal exercise inhibits American companies from pursuing long-term strategies for China. We need a new approach. It does not make sense for America's trade with China to be so strongly influenced by a law that was aimed at the Soviet Union and at a problem that is not particularly relevant to China.

NAM has for some time believed that the Jackson-Vanik amendment should be repealed. I appreciate, Mr. Chairman, that that is a tall order and further that there are a number of issues that will enter into your deliberations on this subject. Maybe at the end of the day some other course will seem more appropriate. Whatever that course is, we need to find it soon.

I hope, therefore, that today's hearing will mark the beginning of a major effort by the Congress to find better mechanisms for managing our trade with China. Like a number of NAM companies, AMP is involved in the effort to explain to our employees and our fellow citizens why it is important for our company and our country to build a solid, mutually beneficial trading relationship with China.

The goal of this project is a normal commercial relationship. Often we translate MFN to mean normal trade, but that is only the first step. There are other steps, including bringing China into the World Trade Organization, liberalizing the U.S. export control laws

and ending the sanctions that the United States imposed on China after Tiananmen Square.

Achieving these objectives will require changes in China, as well as in the United States. China is far from having a proposal for its admission into the WTO that either the United States or other WTO members should accept. The proposal that can be accepted will need to include, for example, a genuine commitment to national treatment in China. We should also insist on significant tariff reductions in China.

Assuming good faith on everyone's part, and I do, these obstacles can be overcome. I hope they will be. Both China and the United States will benefit greatly from China's membership in the WTO. Even after China becomes a WTO member, we will have trade disputes with China. Inevitably, commerce involves a certain number of disputes. We have them with Canada, and we have them with Germany, and we will have them with China.

NAM is convinced, however, that future trade disputes with China will be much more manageable, more easily resolved and less threatening to the overall relationship if they occur within the context of the WTO.

On behalf of NAM, I would like to make one last request. Please do not micromanage the relationship between the United States and China.

What does that mean? In the area of China's admission to the WTO, it means not encumbering U.S. negotiators with new legislative restraints. Obviously, Congress must be kept informed about WTO accessions on negotiations with China. It would, however, be a disturbing break with precedent if these negotiations were further politicized by new legislation.

In other areas such as the Jackson-Vanik amendment, legislation may be required. Here the request that Congress not micromanage the relationship is meant to underscore that the President, any President, will need flexibility in dealing with China. This is not a relationship that we can afford to put on automatic pilot.

There are a number of concerns I have not touched on here, including our rising trade deficit with China and the problems that may arise in connection with a transfer of Hong Kong to Chinese sovereignty.

The larger trends, however, are very positive. Whether one is chronicling China's GDP growth or the treatment of dissidents, China has made enormous progress toward international norms and a better life for its people since 1979. In the same period, we have seen an explosion of business opportunities in China which American companies cannot ignore.

I would also note for the subcommittees that the foreign currency reserves of Hong Kong and China combined total well over $100 billion, placing China behind only Japan for this important indicator of economic might.

As for the most recent developments, I believe they, too, have been more positive than negative. Here I have in mind China's commitment earlier this year to tough new obligations with respect to the protection of intellectual property rights and the Congress' strong expression of support in June for a continuation of the most favored nation relationship with China and the indications we have

had recently that now both Washington and Beijing may be more firmly committed to successfully addressing the obstacles to China's membership in the WTO.

The challenge for all of us is to keep the good news coming, while responding, but not overreacting, to the bad. We believe that a serious effort to create a generally normal commercial relationship with China is one of the best tools we have for doing that.

Thank you very much.

[The prepared statement of Mr. Hudson appears in the appendix.]

Mr. BEREUTER. I thank you very much, Mr. Hudson.

I apologize for not being here for part of your oral presentation. We are switching in this chair while we are completing what is supposed to be the last vote of the day.

I did receive your testimony in a timely fashion, so I have read it and marked it up. I appreciate it very much.

Mr. HUDSON. Thank you.

Mr. BEREUTER. You gave us the admonition that we should not micromanage Chinese-American relations. That is an appropriate kind of advice. It is a little tough for a Congress where, allegedly, we have 535 would be Secretaries of State and Secretaries of Defense.

In this committee we are frustrated sometimes, since we do specialize to some extent in international relations, to find that while we are not expected and not accepted as experts on hazardous waste, grazing policy or any of the other domestic programs, our colleagues are all automatically Secretaries of State.

Next we will hear from Mr. Lawrence W. Clarkson, senior vice-president, The Boeing Company. Mr. Clarkson, thank you for coming to testify. Your entire statement will be made a part of the record, and you may proceed as you wish.

STATEMENT OF MR. LAWRENCE W. CLARKSON, SENIOR VICE-PRESIDENT FOR PLANNING AND INTERNATIONAL DEVELOPMENT, THE BOEING COMPANY

Mr. CLARKSON. Thank you, Mr. Chairman. I am pleased to be here today to provide the views of The Boeing Company on what is indisputably one of the issues that will most dramatically affect our future competitiveness, namely the future of U.S.-China commercial relations.

While I am testifying on behalf of The Boeing Company, I would like to note that I am also wearing my hat as a member of the U.S.-China Business Council, the principal organization of American companies engaged in trade and investment with China, and, as Mr. Hudson has kindly noted, I have the pleasure of serving with him on NAM's board of directors. I am the outgoing chairman of the international trade committee, of which he is the incoming chairman.

Chairman Bereuter, I want to underscore Bill Hudson's acknowledgement of the strong leadership both you and your fellow chairman exerted on the issue of the annual renewal of MFN trading status for China. The impressive vote in June reflected your efforts and the support of a majority of both subcommittees' membership.

Chairman Bereuter, I also want to commend you for your bold statement before NAM on the need to move beyond the divisive MFN debate. It was a clarion call for action by the business community, opinion leaders and the American public, which I can assure you did not fall on deaf ears.

I would like to summarize my remarks, as you have said my full statement will be included in the record.

Today's hearing provides an excellent opportunity to re-examine the foundations of U.S.-China commercial policy and to begin the process of bringing it up to date. There is no doubt in our mind, in the minds of many of our colleagues in the business community, that the time is right to begin this process.

As you begin recasting U.S.-China commercial policy, I would urge you to keep in mind three guiding principles. First, stability and predictability in U.S.-China relations are paramount to U.S. business efforts to participate in China's rapid economic growth.

Our ability to sell in China would be dramatically improved if U.S. policies were more stable and predictable. The logic is simple. Stability and predictability mean fewer reasons for the Chinese Government to slow down the procurement process.

Today, we have more than $6 billion in Chinese airline orders pending. Because of the key role of the Chinese Government in approving airline purchases, it is understandable why these sales have not been finalized. It would be difficult, and perhaps imprudent, for any government to announce multi-billion dollar procurements when U.S. economic sanctions were pending, we were at the brink of a trade war, or it faced the prospect of prohibitively high tariffs that would limit China's exports to the United States.

Stability and predictability become even more important when we contrast our commercial Chinese policy with that of the Europeans. Europe extends MFN or standard tariff treatment to China just as it does to the majority of its trading partners on a permanent basis. This contrast in policy has not gone unnoticed in Beijing and clearly contributed to China's decision to purchase $1.5 billion in Airbus aircraft last April.

Second, stability and predictability can only be achieved if we develop and implement what we call a normal commercial relationship with China.

Because U.S. commercial policy has no solid foundation, it is subject to change based upon emotionally charged events. The annual MFN extension is a good case in point. Under Jackson-Vanik provisions, the basis for extending MFN to China should be limited to two tests: Do we have a bilateral trade agreement with China, and does China allow freedom of emigration? The answer to both of these questions is clearly yes.

Instead, MFN extension has become an annual opportunity to debate the overall state of U.S.-China relations, a process fraught with dangers given the overall relationship has been so unpredictable and the understanding of Chinese heritage and culture is so limited, or should I say lacking, in this country.

With the economic stakes in China so high for firms and families across the United States, we must begin to normalize the relationship and make it more stable.

When I talk about a normal commercial relationship, I am referring to three sets of policy objectives. The first would be to extend MFN trading status to China permanently. The second is to upgrade the effort to reach common ground between the United States and the People's Republic of China on the issue of China's accession to the World Trade Organization, keeping in mind the need to ensure that such effort must strengthen, not weaken, the rules we worked so hard to achieve in the WTO.

Finally, normalization involves the United States pursuing trade disputes through multilateral channels rather than exclusively through bilateral means.

Third, the benefits of trade with China extend well beyond the economics sphere. There is little doubt that improved U.S. commercial ties with China help to advance a broad range of policy goals. This occurs at many levels.

For example, we believe that through Boeing's participation in China, Chinese perspectives have widened and that Chinese lives have been enriched. Transportation has and will continue to play a major role in opening up China and exposing the Chinese people to western culture, western thought, and western ways of doing business.

U.S. business has become a major force for change in China, facilitating the type of market reforms that are key to a more open and forward looking China.

A final note. As a nation, we again face an historic opportunity, much as we did in the 1970's, to move the U.S.-China relationship forward dramatically. We should seize the opportunity.

Improving relations with China is the right thing to do for American firms, American workers and American children, whose economic future and security needs can be better safeguarded with a China that abides by international rules rather than operating outside the system.

Thank you very much.

[The prepared statement of Mr. Clarkson appears in the appendix.]

Mr. ROTH. Thank you, Mr. Clarkson. We appreciate your testimony very much.

What we are going to do, as Chairman Bereuter probably mentioned, is that we are going to listen to all of the testimony, and then we will go to some questions.

Let me say, however, Mr. Clarkson, that you are probably acquainted with Elizabeth Shwartz, who is the chairperson of the Coalition for Employment Through Exports, incidentally doing a super job. If we get this OPIC thing straightened out, it is thanks to her efforts.

Mr. CLARKSON. We are very proud of her.

Mr. ROTH. Thank you.

Our next witness is going to be Dr. Minxin Pei. He is a professor of politics at Princeton. Dr. Pei has written widely on U.S.-China relations, and he is one of the most consulted scholars on Chinese affairs.

We thank you for traveling all this way to Washington to be with us today. Dr. Pei, we would like to hear your testimony.

STATEMENT OF DR. MINXIN PEI, ASSISTANT PROFESSOR OF POLITICS, PRINCETON UNIVERSITY

Mr. PEI. Thank you very much, Mr. Roth and Mr. Bereuter.

This is my fifth or sixth testimony to Congress. I cannot recall the exact number. When I first appeared in this very room, I recall the date was May 4, 1989. The hearing was held by Mr. Solarz on the impending crisis in Tiananmen. At that time, I was acting in the capacity of a student activist calling for strong sanctions against the Chinese Government.

In the last 6 years, however, my views have changed, not because I think I was wrong at the time—I still believe I was right at the time—but because I think an alternative approach to improving human rights and political liberalization in China should be sought. I do believe that a soft approach, an approach through more economic contact and political engagement will yield greater progress in the areas of human rights and democracy.

Most critics of China and of the Administration's policy of comprehensive engagement toward China have argued that despite rapid economic reform in China in the last two decades, there is little movement toward political opening in China. These critics also claim that human rights conditions in China have not improved despite enormous economic progress.

These assertions, however, are contradicted by the facts and evidences gathered by the scholar community. These evidences and facts show that there has been indeed a slow, but steady, progress toward political opening in the People's Republic of China.

I would like to outline these facts. Before I do that, I must acknowledge that by prevailing international standards on human rights, China's standards are clearly below the norms. We are not here to apologize for these practices, but we are simply trying to look for the best ways of improving human rights in China.

Scholars argue and historical experience throughout the world proves that two powerful forces tend to improve human rights in any country. The first one is sustained economic modernization. The second one is political liberalization or democratization. There is also a well established connection between sustained economic growth and progress toward democracy. These two theories have been borne out by the development in China in the last 20 years.

Let me first detail briefly the progress in the improvement of human rights in China, thanks to the gradual process of economic liberalization and political opening. First, the scope of political repression has significantly narrowed compared with the dark days of the cultural revolution.

If we take the measure of the number of prisoners or the ratio of political prisoners as the general population in prison throughout China, we do find a dramatic decline in the last 20 years. Academic scholars in China conducted research that shows that in the mid-1970's, political prisoners made up about 30 percent of the overall jail population. At the end of the 1970's, however, this number fell to about 10 percent. At the end of the 1980's, this number fell to about 1 percent.

Today, according to the figures of various estimates by the Chinese academic community and western human rights watchers, the percentage of political prisoners as a share of the general jail popu-

lation is about .1 to .2 percent. Here we are talking about a very significant reduction in incarcerated political prisoners in China.

Second, the punishment against political offense has also moderated significantly in China. During the cultural revolution, political offense was punishable by the death penalty. After the cultural revolution, the death penalty against political offense has been informally abolished. I have not found a single case of the imposition of the death penalty against a political offense. Most political dissidents are now sentenced to shorter terms than during the cultural revolution.

Broad progress in other areas of human rights, especially in civil liberties, has also been quite noticeable. I single out such liberties as the freedom of travel, employment and residence in China. Hundreds of thousands of Chinese citizens have emigrated abroad, visited and studied in the West. Tens of thousands of western professionals and professors have taught and visited China. Tens of thousands of western businesses have been set up in China.

A beneficial byproduct of this economic opening of China is an enormous increase in the availability of information for the Chinese people. Today, the Chinese people are much better informed.

Private entrepreneurs in China dominate China's book retail sector and exercise enormous influence in the print media. Media discussion of important public policy issues has also become considerably freer. A limited degree of liberalization has also occurred in the electronic media. TV programs now feature sit-coms that poke fun at the government and its officials. A few TV series even explored some very sensitive political issues in recent Chinese history.

An even more encouraging sign that economic reform is finally spilling over into the political sphere is what I call a trend of creeping democratization in China that has occurred in three important areas. The first area is the emerging importance of the national Parliament of China, the so-called National People's Congress. The second area is the strengthening of China's legal system with great potential toward establishing a rule of law. The third area is experimental democracy in Chinese villages.

I will emphasize the emergence of these three institutions in China. First, the National People's Congress today has gained increasing power as a lawmaking body. It has now been very influential in making the content of Chinese legislation and in appointing senior level government officials.

The Chinese legal system has become a decisive factor in the enforcement of contracts in China. More importantly, the Chinese legal system has now provided a very variable arena for ordinary Chinese to protect their constitutional rights.

I want to cite an example of one law that enables Chinese citizens to sue their government and government officials for abuse of constitutional rights. It is called the administrative litigation law in China. Since the law became effective, every year about 27,000 Chinese citizens sue the government. They have won, according to one figure, about 20 percent of the cases.

The Chinese legal community is also expanding. Today we have close to 100,000 lawyers in China. This figure is going to be 150,000 in another 4 years. While I know Americans have serious

doubts about the proliferation of lawyers, I think for China there ought to be more rather than fewer lawyers. This association now has its own national association, and it has recently elected its independent officers.

The most exciting political change in China is, surprisingly, in the villages. In the last 15 years, 90 percent of all village governing bodies, all village committees, were elected by peasants themselves, by village residents.

About two-thirds of China's provinces have experienced two or three rounds of grassroots elections. Some of these elections were poorly conducted. Some were fairly and competitively conducted. Some of the figures show that half of the leaders at the grassroots level were non-Communist party officials. In those villages where competitive elections had been held, governance did improve. Corruption fell dramatically. The government was able to implement its policies more effectively.

Finally, let me say something about U.S.-China relations. Given the broad trend, the broad but slow trend toward political opening and a rising level of human rights conditions in China, what should the U.S. policy be? I think these evidences and facts show that American policy toward China in the last 25 years since the opening has been an enormous success. It has not been adequately reported in the media, but these facts are there.

In order to secure further progress, I strongly urge an enhancement of this engagement policy. This engagement policy should include regular high level exchanges. It should include a reaffirmation of American policy to China and to integrating further into the international community, especially its membership in the World Trade Organization.

More specifically, I urge that a new joint communique between China and the United States be considered for signing after one of the summit meetings in the next 2 years. This communique should embody a new set of principles of bilateral relations.

Some of these principals were already spelled out in a very emphatic way by Secretary Warren Christopher in his important speech in May of this year, and I think this speech should provide a basic framework for such a joint communique.

In addition, I think the new China policy must regularize high level exchanges between the Administration and their Chinese counterparts and broaden exchanges between the legislative branch in this country and their Chinese counterparts. Given the emerging importance of the National People's Congress in China, I think such dialog between Congress and the NPC will be extremely helpful.

Mr. Chairman, I want to thank you for giving me this opportunity to present this view of progress in China and U.S.-China relations. If I were given a similar opportunity in Beijing, I would urge the Chinese leadership to adopt a similarly cooperative position.

There are many people, overseas Chinese included, who would like to see a very healthy and cooperative relationship between these two great countries.

Thank you.

[The prepared statement of Dr. Pei appears in the appendix.]

Mr. ROTH. Thank you very much, Dr. Pei. We appreciate your testimony, as we do of all of our witnesses. Excellent testimony. I had a chance to review it, and I am sure that we in the Congress are going to benefit a great deal from it because we certainly have to focus on other avenues than what we have been going on for awhile.

Mr. Hudson, you made a point. I am just curious. You had mentioned that your workers and workers across our country depend on export growth.

Now, the American people do not seem to get that message. I mean, they applaud sanctions. What are we going to do to change that perception? Until it is changed, I think it is going to be hard to penetrate the wall of opposition to our views, and I underline our views because I am pretty much in step with what you had to say. When I say pretty much, probably totally in step with what you had to say.

I am just curious. How are we going to change this opposition to the views that we hold?

Mr. HUDSON. Mr. Chairman, I think that the associations that we belong to have been doing a much more professional job of collecting knowledge of what is really going on in terms of trade and job creation as a consequence of a lot of the political rhetoric and debate that surrounded the NAFTA and then went on to GATT.

NAM has done some excellent work in talking about why exports matter. There is an excellent treatise from the Manufacturing Institute on that regard. AMP and Boeing and many other companies have also been working through our employees who know how important this is.

I can remember in the 1994 elections, there was this trade issue raised up in many of the elections. Our employees wrote letters and called many Members of Congress, as well as people running for office, to say do not hurt my job. So much of my output goes over to Asia or down into Mexico and Latin America or over to Europe. If we keep putting barriers in front of it, then my job is at risk.

I think this had a profound effect. In fact, I had a lot of feedback from people who were startled to see that our people were saying this type of a thing because they expect business leaders to do it, but when it came from the grassroots——

I went through one of my plants in North Carolina last week. It happened to be a plant that made products for the personal computer industry, so it was a lot of connectors for a memory card. It was pentium chip sockets and things. The workers sat there and told me who their top five customers were. These were global customers. It was Acer in Taiwan. It was SCI Selectron in China and also in Malaysia and Singapore. They knew who their competitors were. These were global competitors, some Chinese, some Taiwanese, a lot of American, some European.

The global focus that our people have now is very real, and they understand that. They think that way. I think they talk to more and more of their neighbors.

One of our local newspapers chose to go into print on the front page and editorialize against trade as being a job sucking type of an issue and attacked me personally on the thing because I have been outspoken about trade. CEOs get put in kind of a defensive

position. You are damned if you do, and you are damned if you do not, so I kind of held back. I was absolutely gratified to see the flow of letters that came in to the newspaper from our people to give them facts. They did a job I could not have done.

I think there is more awareness building up. The problem is the media is as much of the issue, frankly, as the political sphere is.

I think those are the kinds of steps that we are all taking through various trade associations, among our employee base and with the communities to get this message out in a much more mature way.

Mr. ROTH. You had mentioned in your testimony that you have observed that the more we trade with countries, the more influence we have in those countries.

I suppose the contrary position would be well, the more sanctions you have, the less influence you have. Is that basically your contention?

Mr. HUDSON. Yes, it is, and I want to give you two examples of where I have seen that work personally.

As you know personally, I lived in Asia for 9 years. I set up a number of our operations and spent a lot of time in China in the late 1980's. I lived in Hong Kong when Tiananmen Square went up, so I understood the impact of it.

When I first was studying the market issues in China, the investment issues in China, as well as the political issues and meeting many people at both central and provincial government level, I was staggered by the fact that there already was quite an industry that was supplying products like mine.

It employed at that time almost a quarter of a million people in our industry, and yet when I looked at what they were doing and all that, I mentioned to the people in the Ministry in Beijing that our one plant in Singapore with 500 people could supply the whole market. They were totally horrified.

I took a delegation down to Singapore, and they began to see what went on. It was a plant also that had impeccable environmental practices, impeccable employee practices.

I really got easy approvement to put our first investment into Shanghai. Now, the word exploitation is used sometimes about how companies like mine will invest in a country and why we go there. The top reason we go to a country is market access, not exploitation. In fact, our company core value is that does not even belong in the vocabulary.

We brought into our investment in our plating area the same high level technology environment that we used in the United States. It does cost us more, but we think with a philosophy of being a perpetual citizen in a country that exploitation is a short-term thing. We bring in the right things.

The second is we brought in training. We brought in our safety and health practices. All of our machines had the same protections they do anywhere else in the world.

Third, we trained our people in our Singapore plant because Mandarin was a second language. We trained them over here, and that community feeling drew together in a very effective way.

Today, we get the best people joining our company, which puts pressure on the Chinese enterprises that do not have those prac-

tices because they are losing their best people. That tends to upgrade them to have to do the same things that we do.

I could go on, but I am running out of time obviously. I think these are examples of where that interchange has worked very effectively to bringing the values that we feel are very strong in our society and sharing them with these other societies.

Mr. ROTH. Thank you very much, Mr. Hudson. Your time has not run out, but my time has run out.

We will go to Chairman Bereuter for his questions.

Mr. BEREUTER. I will extend you some time.

Mr. ROTH. Please.

Mr. BEREUTER. Mr. Hudson or Mr. Clarkson, I wonder if each of you could cite specific examples of how the annual debate, the uncertainty about renewing China's MFN and whether or not Congress will override the President's decision on that renewal, has hurt your companies or your competitors?

Mr. HUDSON. I am going to let Mr. Clarkson start because I think he has been more impacted.

Mr. CLARKSON. As I mentioned in my statement, and I think Mr. Hudson also referred to it, there was a recent order given to our European competitor, part of which was going to an airline that up to now had only operated Boeing equipment.

Just following the order, a CEO from a major automobile company of the United States happened to be meeting with the Premier of China. Li Peng instructed that CEO to call our CEO and tell him that the reason that order was going to Airbus was the continued harassment of China by the Government of the United States.

I personally also was lectured once by Vice-Premier Lui Lanquing. His point was that the United States is the world's largest, most advanced, developed country. China is clearly the world's largest developing country with the fastest growing economy in the world.

Working together, we can do great things for the world, he said, but if we continue on the course that we appear to be on, many contracts that should go to American companies will go to others. The whole world may suffer if the United States and China cannot figure out how to co-exist and cooperate.

Mr. BEREUTER. Thank you. When I saw the news article related to the Airbus sale, the contract being given to Airbus, there was no doubt in my mind what had happened.

Mr. Hudson, do you have anything you would like to offer?

Mr. HUDSON. Yes. Let me discuss it from another vantage point.

There are many projects that American firms would like to engage in which are multi-year projects and require a commitment both on the part of the supplier, as well as the customer, to be able to engage in that and to meet certain project time schedules.

The Three Gorges project is a very big example. It is a very long, multi-year project. Caterpillar Tractor in particular was struggling to get the earthmoving equipment order, which was a huge one. As you recall, the Administration denied Eximbank loan backing for that project.

Oftentimes we forget about the fact that every one of these projects has alternatives. There are competitors all around the

world. There are a lot of other people who make heavy equipment like that.

Caterpillar gained its strength, as you recall, after World War II because they had a lot of equipment all around the world. It gave them a tremendous global presence coming out of that area, which spawned a continuous market for repair parts and things like that, as well as training and people getting used to using their equipment and wanting more.

The second area, of course, is in the construction industry area of wanting to put infrastructure in there. I can think of power plant projects, whether they are hydro or steam power plants, as well as the people who manufacture that equipment.

In this country, of course, General Electric and, to a lesser degree, Westinghouse, are big suppliers, but we have huge enterprises in Japan and Europe which also are big suppliers who can commit to long-term stability and policies and practices, which give them the inside track on that.

In my business, I am more or less part of the infrastructure. My projects are of lower value when they start, but they become a very big part of support of the whole basic industry that builds up. We do make infrastructure products for the electric power distribution and transmission products. We make it for the telephony industry and the like. They are not as dramatic to hold at hostage as these other big projects may be.

Mr. BEREUTER. Thank you very much, gentlemen.

Dr. Pei, the State Department reported this year that human rights conditions in China had worsened, yet your testimony talks about some very promising trends.

How do you and Assistant Secretary of State John Shattuck see things so differently, or do you see things so differently?

Mr. PEI. Let me put it this way. What I do is to look at broad trends that affect the majority of the population. I think what Assistant Secretary Shattuck looked at was what happens to the most visible, vocal, courageous dissident community.

There is a strong indication that dissidents today perhaps are under much greater pressure. That is because of political succession, struggle in China. However, the fundamental forces that are driving the progress of human rights in China are there. These are the pressure from the Chinese people to demand respectable treatment from their government, the economic linkages with the West and especially with the United States.

We should not look at short-term difficulties and say because things are temporarily not OK we should impose sanctions or roll back the forces without viewing the much greater, long-term benefits.

Mr. BEREUTER. Dr. Pei, would you do us a favor? If you are willing to devote time to the project, try to put on paper your own ideas about how human rights reports could be improved.

It does not have to be China-specific. But, since we can give direction to the State Department, if you could give us some suggestions as to how the reports can more realistically assess the state of affairs in a particular country or countries in general, I should say, that would be very helpful to us. I think we could do something beneficial with your information.

Mr. PEI. I would be very happy to.

Mr. BEREUTER. Thank you.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Chairman Bereuter.

We are going to now turn to our friend, Mr. Faleomavaega——

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Mr. ROTH [continuing]. for questions he may have of our witnesses.

Mr. FALEOMAVAEGA. Thank you. I think there have been some predictions made that in another 15 to 20 years, the People's Republic of China will become the most powerful economy in the world.

I think taking that backdrop and with the feelings of some of the hardliners that we have here in Washington about putting the ax on China because of the so-called many violations that we consider to be against our values, I was wanting to ask Mr. Hudson, when you say sharing our values with the Chinese, we are having a very difficult time defining what our own values are right now, I was just curious what you mean by that.

I am sure that Chinese culture has been around for over 5,000 years, and they certainly have a very strong cultural way or however they do things that not necessarily coincides with Western-oriented values. I was just curious as to what you mean by that.

Mr. HUDSON. All right. I very much understand the differences in culture and, of course, the historical perspective. I studied it, and I lived it. It is very difficult for Americans, with our short history, to respect how it appears to a Chinese civilization with thousands of years of history to wonder why we can sit there and criticize them when they have such longevity.

Mr. FALEOMAVAEGA. I suppose one way I can probably rephrase the question is that I was impressed with the fact that you have 42,000 workers in your company.

Mr. HUDSON. Yes.

Mr. FALEOMAVAEGA. How many of your workers speak Mandarin?

Mr. HUDSON. Everyone over there and also in Singapore.

Mr. FALEOMAVAEGA. Is that right?

Mr. HUDSON. Yes. That is the primary language. If anything, we have to adapt to their situation, not the other way around.

What I mean by values is in the business sense. Many of the gaps in those values are not because there is somebody trying to oppress them. It is simply ignorance of what can be done and what technology is available to do that.

We have talked a great deal and seen a lot of input about how bad the environment is and how polluted the rivers are in China and all that and the air. The problem is they are not aware of the technology. To them, it looks like a huge investment cost.

From our standpoint, our pollution control systems actually save us money, even though the capital cost is there. By bringing that there and showing the enterprises that this is really what you can do, you are bringing another value into the business equation in China.

The same thing dealing with safety equipment. To me, if you put a lot of effort into training somebody to have a certain skill level,

but you give them equipment and machinery that cuts off fingers or, even worse yet, gives them a permanent injury, you have lost that value.

Mr. FALEOMAVAEGA. Let me follow up. I think this fundamental issue sometime in the near future, if not now, is going to come to a head.

Both for you and Mr. Clarkson as well, I would like to ask you gentlemen how can you convince the American workers that by moving corporate America to foreign countries like China that this is not going to sacrifice the jobs of the working people here in our country?

Mr. HUDSON. All right. I will start and then let Larry talk about it.

Mr. FALEOMAVAEGA. Can you give assurances that this is not going to in any way negatively impact the working people here?

Mr. HUDSON. To begin with, one of the most important things I said earlier about why we invest in other countries is not to exploit labor or go for low cost. It is to have access to markets. In our kind of business, producing and being there is the better way. It draws trade.

As I said, we have a positive trade balance between the United States and China. It is a ratio of, and I may get corrected, well over 100-to-1 in favor of the United States. By having that market access, even though we produce products here, we cannot begin to produce the full breadth of product that we make all around the AMP world. That actually enhances jobs. It does not eliminate jobs.

Mr. FALEOMAVAEGA. I do not want to sound like Pat Buchanan or Ross Perot about all these things, but I think the real concern of the average working person here in America is the assurance that when we move to foreign countries, that does not mean that jobs are going to go with it.

Can you give that kind of an assurance to the committee and to this member?

Mr. HUDSON. I think definitely as the CEO of my company, I certainly can. I can also show evidence all the way back to 1952 where that has always been the case. Our employment rate in the United States has continued to grow.

Mr. FALEOMAVAEGA. I think our corporate people need to say that a little more because I am not hearing that in the media. I am hearing this to be the opposite of what seems to be the criticism of our companies doing business abroad. I wish you would say that more.

Mr. HUDSON. Congressman, you are hitting a nerve of frustration because the media does not want to hear this side of the story. That is the problem we face.

Mr. FALEOMAVAEGA. It is not that I agree with the media, but I am glad you are saying that.

Mr. Clarkson.

Mr. CLARKSON. Boeing airplanes average about 90 percent U.S. content. That is counting everything. We make about half of the airplane, and we buy about half of the airplane. If you look at the total, it varies a little bit from model to model. Some are as high as 95 percent. Some are about 87 percent. The average is 90 percent.

In 1995, 88 percent of our new orders came from non-U.S. airlines. It is the world trading system and the WTO that allows Boeing to continue to operate as a U.S.-based company with all of its plants except two very small ones in the United States. We do have some suppliers overseas. We do it for the same reason as Mr. Hudson's company does, which is market access.

We would like to see China in the WTO so they would be brought into the international trading rules and regulations that are contained in that.

For every job that we have put somewhere outside the United States, we have created more than 22 direct jobs at Boeing. We have to do a better job of telling that story, although it is like a lot of good news stories. It does not make the front page.

Mr. FALEOMAVAEGA. You know, it is sad, Mr. Clarkson. I know my time is over, and we are ready for the next round. It is sad because it seems that by association when we say the good Republican it is "all corporate America" and then the Democratic is "all working people". I wish, Mr. Clarkson, you and your associate would say that a little more often to the American public because this is not coming across.

I think when we have leaders like Ross Perot saying just the opposite of what you are telling me, I think the American public needs to be educated. I am sorry to say that this is not the kind of information that the members here—at least I have never come across the information you are giving me now.

One more question, Mr. Chairman, if I could, to Mr. Pei?

Mr. ROTH. We are going to have another round.

Mr. FALEOMAVAEGA. Just one more, Mr. Chairman.

Mr. Pei, do you really think we need to have more lawyers in China like we now have here?

Mr. PEI. Up to a point.

Mr. FALEOMAVAEGA. That is all, Mr. Chairman. I will wait for the next round.

Mr. ROTH. Thank you very much for your excellent questions and your comments.

Let me ask you, Mr. Clarkson. I am really struck by this 88 percent. Boeing is probably America's No. 1 exporter, I suppose, in terms of dollars. What is the importance of China's market to Boeing and American aerospace as a whole basically?

Mr. CLARKSON. It is of great growing importance. In 1994, one out of every seven airplanes that Boeing delivered went to an airline in the People's Republic of China. We estimate, which means we forecast, and everybody knows that forecasts are as good as the paper they are written on maybe, but we forecast that the aircraft demand in China in the next 20 years will be in 1996 dollars $140 billion.

It will be the largest single foreign customer for new transport aircraft. The reason is fairly simple. As the economy grows and the demand for travel grows in a country of that immense size, it is the only easy way to expand their transportation infrastructure.

In this country, there are two, almost three, trips per year made per citizen. Now, I know a lot of people in this room make more than their fair share of those trips, but the average is actually three trips per year. In the People's Republic of China today, it is

.003, so you can see that there is a great opportunity for growth there.

Mr. ROTH. You said in your testimony that you have $6 billion in sales pending in China, but these sales are contingent on our overall relations.

What would be some of the things that would threaten those sales?

Mr. CLARKSON. They have been held up by the MFN issue, the threat of IPR sanctions, President Lee's visit here.

Unfortunately, because of the high profile of my company, it is an easy target. Although there are now some 30-plus airlines in China who are making the buying decisions, every one of those decisions is subject to approval by the State Planning Commission at the very highest levels. We have been told, as I mentioned earlier, in no uncertain terms that you are sort of being held hostage.

While I have the microphone, I want to comment on something, if I may, Mr. Chairman. Chairman Bereuter mentioned the growing un-American or anti-American sentiment in the People's Republic of China. That is absolutely true.

The people on the street in the big cities, Beijing, Shanghai, Guangzhou, when I first started going over there longer ago than I would like to admit were very, very friendly to Americans. They are beginning to look at us as their enemy.

I contrast that to Dr. Pei's comment about the growing democracy movement. The fact is, democracy is coming to the People's Republic of China. As democracy grows, the leaders and the politicians of China will have to become much more attuned to the opinions and voting habits, I suppose, of all those Chinese people.

We have got to turn around this trend of anti-Americanism, or we are going to suffer the long-term consequences. I would ask you to take that back to your fellow Members of Congress because it is easy to sit and pontificate about the problems that we all acknowledge exist there, but democracy is coming. The rest of the world is cooperating with China on the whole, and we are the guys who are beginning to appear to them to be the bad guys.

Mr. ROTH. I am curious. This $6 billion in pending sales, what does that translate to in number of jobs? Do you have that information, or can you give us a rough guess?

Mr. CLARKSON. Well, I think the number is 10,000 jobs per billion.

Mr. ROTH. So that is about 60,000 jobs?

Mr. CLARKSON. Yes.

Mr. ROTH. Mr. Bereuter, do you have any other questions?

Mr. BEREUTER. I do, Mr. Chairman. Thank you.

Those statements, Mr. Clarkson, were important to make and discouraging. My last visit to Beijing was in August 1995. A number of times I had people ask me, "Why do Americans hate us?" These were not government officials.

Interestingly to me, the thing they cited most often as an example of why they were concerned is that we had kept the Olympics from them. They took that as a very deep blow. It affected everybody in that city at least, and probably a large number of people in China.

I recall my first visit about 1988 or 1989. There was a very positive attitude in the three cities I went to in various parts of the country. We had one Member of Congress with us who had flown the hump during World War II. He was a hero to them. He always brought out from the senior citizens comments about how we fought the common enemy.

They were interested in why Americans were not there to do business. They saw people from other countries, but they did not see Americans. People were learning English on the car radio, for example. The taxi cab drivers were listening to English on radio programming.

It was a very positive sense of friendship that I noticed on the part of the Chinese people. If that is going or gone, I think it is a terrible loss.

Dr. Pei, would you like to comment about this subject?

Mr. PEI. Yes. I have been also very painfully aware of this rising nationalism in China. I think a number of things led to this trend. I want to emphasize two factors that were primarily responsible for this from this end. I think internally there are factors that we cannot do anything about, but we can do something about the two factors I am going to mention.

The first is media China-bashing, which is very unfortunate. If you look at the New York Times, the Washington Post, the Economist, the editorial page of the Wall Street Journal, they contain stories and articles that even the relatively moderate Chinese like me find very offensive to the Chinese people.

They underplay the positive trends in China. Nobody has mentioned the kinds of things I have discussed here today. They exaggerate the Chinese aggressiveness, and they exaggerate the violation of human rights in China. They pin China as if it were Hitler's Nazi Germany.

This type of China-bashing hurts the Chinese people's pride. I think it almost made them painfully realize that no matter how hard they try, the West is not about to accept them. I think that did enormous damage to the Chinese people, especially the intellectual community that have access to the media.

The second factor is the manner in which China policy is conducted in this country. It is too public, too high-handed. Each time China is in the news, it is being denounced by people on the left and on the right as the bad guy. You take such high moral ground that you do not get much accomplished. In the meantime, you poison the atmosphere so badly that it is difficult to make amends.

I strongly urge, although I think it is difficult to say anything to the media (it is a democratic and free country), but I hope their representatives here will be aware that in handling China, we must be really objective and fair.

Second, I think for the political leaders in this country, they must be sensitive to the Chinese concern for respectability, dignity, the so-called "face". China today has clearly come a long way from the hey days of Maoism. That single achievement is something that most Chinese feel proud of, despite the fact that the country remains a non-democratic country.

I think in the future, a healthy, viable bilateral relationship must be built on mutual respect.

Mr. BEREUTER. Thank you.

I do have one more question that relates to China's alleged desire to become a member of the WTO. We see little progress on their part in meeting the requirements. They seem to have in some ways a free ride now without being a member. They have offered, at least as far as I am aware, not much in the way of an indication of progress in meeting normal requirements to be a member of the WTO.

The Far Eastern Economic Review article recently indicated that China's state trading entities are growing in importance relatively and in absolute terms and that would seem to be a major accession problem. That is moving the wrong direction in terms of meeting the requirements of WTO.

I will ask our business representatives here in particular. Do you think that the growth of state trading entities is in fact happening relative to the entire size of the Chinese economy, and is it the problem that it seems to be?

Mr. HUDSON. Let me start with it and then turn it over to Larry.

In my business, the state trading organizations are not growing. In fact, there is more privatization of the industry going on in my arena, so I would not share that particular view.

In fact, I think the continued growth in foreign investment and the influences that brings with it tends to undermine that state enterprise is growing. That is the industries that I reflect, which are fairly broad. It is all of the electronics, all of the transportation, infrastructure and the like.

Mr. BEREUTER. So you do not need it personally, although it may or may not be a national trend——

Mr. HUDSON. Yes.

Mr. BEREUTER [continuing]. or fail to be a national trend?

Mr. HUDSON. That is right.

Mr. BEREUTER. Mr. Clarkson, do you have anything to say on this subject?

Mr. CLARKSON. Yes. I think there are two schools of thought in the People's Republic of China on this subject. I think the one that prevails at the moment is that it is important for China to become a member or to accede to the WTO because this is a huge symbol of their acceptance.

There are also a lot of Chinese businessmen and leaders who say look, our economy is going to be the biggest in the 21st century. Everybody will have to deal with us. Why should we sign up to the restrictions and the rules of the game that the WTO contains? These are tough businessmen and leaders, some of whom may have been Communist, but, most of all, who were capitalists before they were Communist.

I think the time is right. I think if we move with some dispatch, we will get them into the WTO under reasonable ground rules. There will be some tough negotiations, but I think we can do it. I think if we dally too long, then the leverage will be gone that countries like the United States and the EU have. They may stay outside, to our great regret.

I would urge you in your role as 535 acting Secretaries of State to urge the real one and the U.S. trade representatives to get on with it and get the job done while we have a chance.

Mr. BEREUTER. Thank you, Mr. Clarkson.

Thank you, gentlemen, for your time and for your thoughts today. I very much appreciate it.

Mr. Chairman, I appreciate the opportunity to conduct this joint hearing with you. It was well orchestrated and designed and very helpful.

Mr. ROTH. Thank you, Chairman Bereuter. It is always a pleasure to work with you.

Let me ask Mr. Faleomavaega if he has any other questions. He probably does not, but I will ask anyhow.

Mr. FALEOMAVAEGA. Just one.

Mr. ROTH. Go ahead.

Mr. FALEOMAVAEGA. Before asking my question, Mr. Chairman, I certainly would like to thank our distinguished panel. I just wish that the media was here to catch some of the beautiful remarks.

I just wish the American public would be a little more educated about the realities and what we deal with about exporting, not just business but jobs, and what this means to our economy. I think this has been one of the issues that we have beaten practically to death in a very biased and emotional way. It is very unfortunate that we are not doing it as a people rather than on a partisan politics basis.

Just one question. This is my humble prediction, and I would like you gentlemen's opinion. Is the transition of Hong Kong next year going to exactly tell us where our policy is going to be concerning China?

Mr. PEI. Let me just start off. I think there is a consensus in the China-watching scholarly community that the Chinese Government is very serious about engineering a smooth takeover. We should give the Chinese Government the benefit of the doubt about its intention of doing a good job.

There is serious uncertainty, however, about the government's actual ability to pull off a smooth transition because the government is not really very well informed and is not a smooth operator in solving actual problems. Here I think high-level communication and avoidance of taking a confrontational position on this issue are very desirable.

Mr. HUDSON. From my discussions with business leaders in Hong Kong, many of whom are Chinese and very wealthy, they have already forged the ties with China to ensure that it is going to go as smoothly as can be.

There are going to be some things that happen that we are not going to particularly like. China is not going to destroy that very, very valuable resource they have with Hong Kong. Their attempts to build Shanghai as a financial alternative to Hong Kong are going, but they cannot possibly get to the same level of capability.

Mr. FALEOMAVAEGA. I think my problem, Mr. Hudson, is what if you have the likes of Governor Patton taking such a high role in declaring the Chinese being unfair in the transition and the British economic interests being threatened? Not our doing, but we may have to acquiesce to the British interests to this effect. This is my concern.

Mr. HUDSON. Many of the Chinese people in Hong Kong are not in agreement with Governor Patton's approach.

Mr. FALEOMAVAEGA. I think this is going to be a real serious matter where our government's position is going to be because of the obvious close relationship that we have with the British in just about everything that goes on in our foreign policies.

I am very concerned about this because I believe if British economic interests are not assured or not protected, they are going to do something to upset this transition.

Mr. HUDSON. I do not think there is a threat to British and American interests regarding what happens in Hong Kong as much as it is whether the legislative council is going to stay in the same form and power. It obviously will not. That is one of the contentious issues.

Mr. FALEOMAVAEGA. So full speed ahead, regardless of what the British feel?

Mr. HUDSON. I think even the British are pragmatic about it when you talk to the average one out there about this whole thing.

There is one other thing I would like to point out, because it is a very good question. This is also the beacon of what would happen with a transition of Macau into China and the Portuguese interest there. It also would be a beacon to what might potentially happen with Taiwan in terms of its potential integration into China.

The Chinese want to do it right, and I think they are trying to do everything they can to make sure they understand how to do it. I agree with Dr. Pei. They may not know all the things that need to be done because this is a very modern economy, but I think they are going to be very careful about how they do this because it portends exactly what will happen with the other transitions.

Mr. CLARKSON. I think the economic integration of Hong Kong and the People's Republic of China has already essentially taken place. The issues that remain are the ones that are political and judicial, some of which have been made perhaps more difficult by the actions of the United Kingdom over the last 4 or 5 years. All of a sudden, they decided this really ought to be a democracy since we are leaving now.

I agree with Dr. Pei. I think there will be some hiccoughs in the road. They will do their best to control it, but Hong Kong is very intensely populated, very densely populated. There will be some demonstrations.

The way I have heard it, the British want to have a big, formal ceremony at noon with CNN cameras rolling.

Mr. FALEOMAVAEGA. Colonialism in its finest hour.

Mr. CLARKSON. Right. Exactly. The people in Beijing would like to have the handover take place at midnight in a dark room where nobody knows where it is.

Mr. FALEOMAVAEGA. Thank you very much, Mr. Chairman.

Mr. ROTH. I want to thank the members who are with us today. We have a very important meeting, and that is why some of our members are not here.

I want to thank Dr. Pei, Mr. Hudson and Mr. Clarkson for your excellent testimony. I am going to have your testimony distributed to all of our members.

Let me say that the futurists all tell us that the next century is going to be the century of the corporate statesman. When I listen

to people like yourselves, I am very confident that the 21st century is going to be a great century.

If it is the century of the corporate statesman, that means you have more responsibility too, does it not? That means that you are the politicians of the 21st century.

I was interested when Al Checci, CEO of Northwest Airlines, went back to Minneapolis. He and his wife got off the plane after they were involved with Northwest. All the flood lights were on, and he said to his wife welcome to the world of business.

He told me, and I believe him. He said what the Congressman is today, this is what the corporate statesman will be like, the corporate person of the 21st century.

I am very pleased with the testimony we had today because I think that our corporate people have a keen sense of what the future is going to be and can adapt to it, which the politician cannot in today's world because we are basically tied to the bureaucracy.

I wish you the very best, and I very much thank you for being here today and giving us the benefit of your insight.

Thank you.

[Whereupon, at 4:10 p.m. the subcommittees were adjourned.]

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APPENDIX

NAM National Association of Manufacturers

MANUFACTURING MAKES AMERICA STRONG

Testimony

of William J. Hudson
President and Chief Executive Officer, AMP Incorporated

on behalf of the National Association of Manufacturers

before the Subcommittee on International Economic Policy and Trade
and the Subcommittee on Asia and the Pacific
Committee on International Relations, U.S. House of Representatives

on Policy Recommendation for U.S. Trade with China

September 19, 1996

1331 Pennsylvania Avenue NW, Suite 1500 North Tower Washington DC 20004-1790
202 637 3000 • Fax 202 637 3182

Manufacturing:

The Key to Economic Growth

- The United States was rated number one in overall global competitiveness by the World Economic Forum in 1994, and again in 1995.
- U.S. manufacturing productivity growth averaged more than 3 percent over the last decade, compared with less than 1 percent growth in the rest of the U.S. economy.
- U.S. manufacturing's direct share of the Gross Domestic Product (GDP) has remained remarkably stable at 20 percent to 23 percent since World War II. Manufacturing's share of total economic production (GDP plus intermediate activity) is nearly one third.
- A change in manufacturing output of $1 results in a total increase of output throughout the economy of $2.30.
- The U.S. share of world exports in manufacrured goods is now 12.9 percent, up from 11.6 percent 10 years ago.
- Manufacturing provides the bulk of technological advances and innovation for the economy.

Testimony Of

WILLIAM J. HUDSON
President and Chief Executive Officer
AMP Incorporated

On Behalf Of

The National Association of Manufacturers

POLICY RECOMMENDATION FOR U.S. TRADE WITH CHINA

Before The

The Subcommittee on International Economic Policy And Trade
and
The Subcommittee on Asia and the Pacific
of
The House Committee on International Relations

September 19, 1996
Washington, D.C.

Chairman Roth, Chairman Bereuter, I commend you for convening this hearing on the future of our country's commerce with the People's Republic of China. The issue could hardly be more important or more urgent. That may seem a strange characterization for a subject that is not now in the political spotlight. And yet I believe it is accurate. In any event, in light of China's large and growing economic importance to American companies, I want to thank you most sincerely for giving me and the NAM this opportunity to present our views.

As important as China is, China-specific policies in the business arena are almost certain to fail unless they are expressions of a broad and broadly shared understanding of the role of American companies in the global marketplace. I should like to offer NAM's view on the essential elements of that understanding.

Also, like many others, the NAM believes that there are lessons our country should have learned from the last seven years of experience with the Jackson-Vanik Amendment as that law has been applied to China. I should like to give you our view of that history.

Finally, we have recommendations to make with respect to the China-specific policies that we believe are most likely to advance American commercial interests in the years ahead.

First, though, it might help if I were to say a word about the NAM and about AMP Incorporated. The National Association of Manufacturers was founded in Cincinnati, Ohio, in January of 1895. One of the earliest goals of the Association was to open markets in China for American manufacturers. Today, the NAM is one of the nation's premier business organizations, with over 14,000 members and offices throughout the United States. Helping American companies win new business in China and throughout the world is still one of the NAM's goals.

My company, AMP Incorporated, was founded in 1941 and joined the NAM in 1944. It is a global company with 1995 sales of over $5.2 billion. Fifty-seven percent of that $5.2 billion was earned from sales outside the United States. Yet 56 percent of our 42,000 employees worldwide are here in America. AMP's headquarters are in Harrisburg, Pennsylvania, and we have U.S. facilities in 14 other states as well.

AMP's products are electrical and electronic connectors and connections systems and the tools and machinery for applying them. If a product uses electricity, then it uses connectors. Our customers, for the most part, are manufacturers of just such products, from automobiles to airplanes, from computers to dishwashers. In many cases, we are able to supply customers locally. So, for example, we provide connectors to Japanese customers from our facilities in Japan and to German customers from our facilities in Germany.

Nevertheless, there is a lot of trade in connectors, and the AMP balance of trade is quite favorable to the United States. We export roughly six times as much as we import in terms of the value of the products involved.

AMP has been in China since 1991. We have production facilities in Shanghai and Shunde, with an additional facility just getting ready to come on stream in Qingdao. These facilities are there to serve the computer, automotive, telecommunications, networking and power and utilities industries. At present, we have approximately 300 full-time employees in China and another 101 employees in Hong Kong. The 300 for China includes both the production facilities I mentioned as well as AMP's sales offices in Beijing, Shenzen, Quanzhou and Xian. That number will probably grow by a few hundred over the coming year. The people who work in our Chinese facilities are not taking jobs away from workers in Pennsylvania or the Carolinas. They are doing work that has to be done in China, and in doing it they are making all of AMP a stronger company. In fact, part of our challenge is to counter moves by our local and regional competitors in Asia and thus prevent them from being able to challenge AMP in the United States. I would note too that there is a favorable trade balance between our U.S. operations and China.

AMP is involved in other projects in China as well, including a research program at Beijing University. This involves AMP-funded scholarships, and the research is directed at problems that are especially acute in China. For example, one major project is devoted to learning more about the effects of dust on electrical connectors. Those of you who have visited China will know why we are looking into that.

AMP's investments in China are investments for the future. Over the next several years China will pour significant resources into power generation, telecommunications and

other areas where AMP can contribute products and expertise. We want to be part of those China markets and of China's continued growth.

U.S. COMPANIES AND FOREIGN MARKETS

To go back a bit, the fact that 57 percent of our sales are outside the United States is a statistic worthy of a moment's reflection. It is hard to think of a large American company that does not derive a significant percent of its revenue from foreign sales. For General Electric, it is 38 percent. For IBM it is 55 to 60 percent; for Procter and Gamble it is over 50 percent as it is for Caterpillar. For these companies and many others, the relative dependence on foreign sales is a multiple of what it was a decade ago and a fraction of what it is likely to be a decade from now.

In short, Mr. Chairman, American companies, and indeed the American people, have a very large investment in the ability of our companies to succeed in foreign markets. The fact that U.S. imports and exports combined are now equal to roughly 30 percent of U.S. GDP, impressive though that is, still understates the case in a sense. Another way to think about the issue is to contemplate what it would mean if the revenue of the Fortune 500 were cut by 30 to 60 percent.

And yet it often seems that American policies are not predicated on the belief that American companies need to be successful in international competition. Rather, the driving assumption seems to be that international commerce is of marginal value to America, more a favor we do for others than an imperative that we undertake for our own well-being and our own future.

Notwithstanding the need for some export controls and the laudable goals behind the newly minted sanctions bills, our policies in these areas give short shrift to the importance of international commerce to the United States. The Administration's recommendation that the U.S. Export Import Bank not assist U.S. companies in connection with China's Three Gorges Dam project bespeaks the same lack of appreciation of the need for American companies to be able to compete effectively in international markets. I would add that the consequences of decisions like this reach far into the future. The buyer who goes to a U.S. rival originally is likely to go back again and again for replacement equipment, spare parts and training. As a result, business that might have kept Americans at work for many years goes to foreign competitors instead.

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These critiques of U.S. policies by U.S. business are, I am sure, familiar to most of the Members of these Subcommittees and to many others in Congress as well. I suspect you sometimes wonder whether those of us in the business community see any relationship at all between the activities of American companies abroad and other, non-economic policy interests that our country has in various parts of the world. We do.

Clearly, the greater the economic involvement the United States has with another country, the more influence we have. But it is influence of a special kind, and it can be easily lost if it is improperly used. Other countries simply will not tolerate regular, overt interference in their societies by U.S. leaders brandishing economic threats. Thus, frequent or casual use of U.S. economic power in today's world rapidly diminishes such power. When large issues are at stake, however, one can be sure that other governments themselves will take into account the economic leverage that the United States may have as a result of the international activities of U.S. companies.

The argument here is that policy makers should regard the foreign commerce of American firms as a long-term investment. Given time, these investments can positively affect the relationship between the United States and others, but they cannot be bartered away for short term policy objectives. To do so is to treat the family savings account like petty cash, with all of the unhappy implications such behavior has for the family or the country.

This does not mean that the U.S. Government should not vigorously defend U.S. commercial interests when commercial disputes arise. Tough actions, such as the IPR sanctions against China that were threatened earlier this year, are often a necessary part of international commercial politics. Defending one's commercial interests and the integrity of agreements, however, is quite different from demanding immediate social and political change for the privilege of trading with the United States.

U.S. COMPANIES AND CHINA

There are three points especially that we hope you will consider when you make decisions about China. They are these:

- China is important to the U.S. economy,
- American business is a positive force in China, and
- The importance of Sino-American economic relations will increase dramatically when Hong Kong passes from British to Chinese rule.

I have already discussed briefly our view that China is important to the U.S. economy. A further word on the second point — the positive contribution that American companies make in China — may be in order.

In short, U.S. companies in China employ large numbers of Chinese. These people are working with Americans every day, interacting with us by e-mail, fax, and telephone as well as in face-to-face settings. If we wish to share our values with people in China, there is no more effective way of doing that than working with them. The Chinese who work for American firms enjoy a comparatively high standard of living, and they gain an important measure of personal independence.

Moreover, my company and other American companies are exemplars in adherence to worker safety and environmental protection standards, and our work in these areas has beneficial effects on the practices of Chinese firms. The American commercial presence helps Chinese managers to become familiar with important workplace standards, and it helps introduce the rule of law.

When people talk about human conditions in China, American companies think of their own employees there and wonder how they would be affected by the end of MFN and the 1979 trade agreement with China or by some other serious disruption in U.S.-China trade relations.

CHINA AND THE JACKSON-VANIK AMENDMENT

The NAM has done two reports in the last two years on China, U.S. companies, and the Jackson-Vanik Amendment. I believe copies of this year's report were sent to every member of the House. It is an excellent effort, and I commend it to you. Here, however, I would like to quote from the 1994 NAM report, *The United States and China, Valuing The Relationship*, which provides a brief overview of the relevance of the Jackson-Vanik Amendment to our current trade with China:

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> Because China and the United States were barely speaking in 1974, much less trading in significant quantities, China was caught by the Jackson-Vanik Amendment to the 1974 Trade Act. The clear goal of the amendment was to persuade the Soviet Union, a country that no longer exists, to remove barriers to the emigration of Soviet Jews. When the United States and China negotiated a trade agreement in 1979, both sides understood that, in a formal sense, the Jackson-Vanik Amendment would apply to China.
>
> For a decade, though, neither country regarded this U.S. law aimed at the Soviet Union as an obstacle or even particularly relevant, not, that is, until the events in Tiananmen Square in June 1989. From 1980 until 1989, the President routinely approved and forwarded to Congress the required waiver, which enabled U.S.-China trade to grow, largely uninterrupted by politics in the first decade of the U.S.-China trade agreement.
>
> The President's Jackson-Vanik decision for 1989 had already been made by the early morning of June 3, when Chinese troops moved into Tiananmen Square and massacred hundreds. Ever since then, however, the granting of a Jackson-Vanik waiver for China has been a major political event in the United States. The issue ... has not been simply emigration policy, the only subject of the Jackson-Vanik amendment. The issue in the United States has been the broader one of China's human rights policies and human rights record in general.

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More accurately, the annual U.S. debate about the President's Jackson-Vanik waiver for China has encouraged a wide variety of interests to suggest that further trade with that country should be held hostage to a laundry list of U.S. demands. Wisely, the Congress has consistently rejected this course. This year, the House did so by the impressive margin of 286 to 141.

For myself and for the NAM, I would like to thank both of the Subcommittee chairmen who are presiding at this hearing for their votes on H.J. Res 182, a bill

"Disapproving of most-favored-nation treatment to the products of the People's Republic of China." Indeed, we thank every Member who voted against that resolution and in favor of continued trade with China. I believe that this was the first time since 1990 that the critical vote on the MFN issue was the vote on the statutorily prescribed resolution of disapproval of the President's Jackson-Vanik waiver. Last year, for example, the more significant vote was the vote on the "China Policy Act of 1995," which had been offered by you, Chairman Bereuter, and which both you and Chairman Roth supported. It is a tribute to the chairmen of these two subcommittees that the 1995 MFN issue was managed as successfully as it was. It is an encouraging development in the evolution of the issue that the pro-MFN managers of the issue did not see the need for a separate bill this year and further that they were able to muster such a strong vote — 286 to 141 — in favor of continuing the MFN-relationship between the United States and China.

We should not be lulled into believing, however, that, because MFN for China has so far been consistently sustained, that the annual debate over U.S. trade with China is a harmless one. It is not. At the very least, it has introduced a costly cyclicality into our commercial relations with China. When threatened with the withdrawal of MFN, i.e., normal tariff rates, China responds with actions designed to show the United States that it has alternative sources of supply for the things it buys from the United States.

The process has made American firms hostages of the vagaries in Sino-American government relations, and it has led the Chinese, understandably, to regard U.S. firms as less reliable suppliers than others. Finally, the annual MFN-renewal exercise inhibits American companies from pursuing long-term strategies for China.

The highly publicized purchase this past April of 30 A320s from Airbus Industrie by the China Aviation Supply Corporation may be the most recent, vivid example of this kind of cyclicality. I am not arguing that China should not buy aircraft from Airbus. I am saying, though, that there is something wrong when a predictable, even if unintended, consequence of U.S. policy is to encourage them to do so.

More broadly, I would submit that it is simply inappropriate for America's commercial relations with China to be so strongly influenced by the provisions of a law that was aimed almost exclusively at a country that no longer exists and at a problem that is not particularly relevant to China. The absurdity of this situation is underscored by the fact that even the legislative process contemplated by this law has since been found to be unconstitutional by the U.S. Supreme Court.[1] As you know, the original version of the Trade Act of 1974 provided for the reversal of Presidential decisions in this area by a simple majority of either house of Congress. Today, however, it would take a two-thirds majority of both Houses to reverse a Presidential Jackson-Vanik waiver, so long as the President adhered to his own determination.

The National Association of Manufacturers has for some time believed that the Jackson-Vanik Amendment should be repealed. I appreciate, Mr. Chairman, that that is a tall order and that there are a number of issues that would need to enter into your deliberations on this subject. Perhaps, at the end of the day, some other course of action may seem more appropriate. Whatever that course is, we need to find it soon. I hope, therefore, Mr. Chairman, that today's hearing will mark the beginning of a major effort by Congress to find better mechanisms for managing our trade with China.

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[1] The Immigration and Naturalization Service v. Chadha, 462 USC 919 (1983).

THE NORMALIZATION PROJECT

In one sense, these comments barely scratch the surface of our concerns with respect to America's commerce with China. Like a number of NAM companies, AMP is involved in the effort to explain to our employees and our fellow citizens why it is important for our company and our country to build a solid, mutually beneficial trading relationship with China. Rephrased, the goal of this project is a normal commercial relationship with China.

Often we translate MFN to mean normal trade, but in fact MFN is only the first step in a normal commercial relationship. Other elements include bringing China into the World Trade Organization on terms that are commercially acceptable, liberalization of the export control laws that apply to China, and an end to the sanctions that the United States imposed on China after the 1989 Tiananmen Square tragedy.

Achieving these goals will require changes in China as well as in the United States. China is far from having a proposal for its admission into the World Trade Organization that either the United States or the other members of the WTO should accept. The proposal that can be accepted will need to include, for example, a genuine commitment to national treatment in China. That is, a commitment by the Chinese government to give U.S. and other foreign companies operating in China the same privileges that are afforded to Chinese companies, and assurances that, except for tariffs, there will be no discrimination among the products that circulate in China.

As for tariffs, it is appropriate for the United States and others to insist on significant reductions in China's tariffs as a condition of entry into the World Trade Organization. The fact is that China did not participate in the last eight rounds of GATT/WTO tariff-cutting negotiations, and China's is far too important an economy for that fact to be ignored in our discussions with China over its application for WTO membership.

Assuming good faith on everyone's part, and I do, these obstacles can be overcome. I hope they will be. Both China and its trading partners — including the United States — will benefit greatly from China's membership in the World Trade Organization.

Even after China becomes a member of the WTO, the United States will have trade disputes with China. Inevitably, commerce involves a certain number of disputes. We have them with Canada and Germany, and we will have them with China. The NAM is convinced, however, that future trade disputes with China will be much more manageable, more easily resolved, and less threatening to the overall U.S.-China relationship if they occur within the context of the World Trade Organization. There they can be judged by experts from third countries and handled as something other than a test of wills between great powers.

Obvious as this reasoning may sound, it is nevertheless somewhat controversial. The United States could allow China to join the WTO but decide that its own relationship with China should be governed, not by the World Trade Organization but, by the current bilateral agreement. The U.S. Government could achieve such a result by invoking the WTO article for non-application of the GATT/WTO between two members of the WTO.

This course is possible and has been talked about in the past. From our perspective, it would be a tragedy if it were pursued. The NAM expects that the United States will only agree to China's membership in the WTO if the Chinese commit themselves to a realistic protocol of accession. If they do so, we would want our country to have all of the benefits of those commitments, including the benefit of resolving disputes with China inside the WTO. That will only be possible if the United States applies the WTO to China.

Technical as these issues may seem, Mr. Chairman, I urge you and your colleagues to consider them carefully in the months ahead, as you review the essential elements of U.S. commercial policy towards China. On behalf of the NAM, I would also ask you again to keep the following two familiar thoughts firmly in mind throughout this review process: China is important to the U.S. economy, and U.S. companies play a positive role in China.

In the hope that Congress will legislate in this area next year, I would make one last request: Please do not try to micromanage this critical relationship between the United States and China. In offering this suggestion, I am concerned about two things. The first is that highly specific legislation has the potential for creating very large problems in the relationship as a consequence of legislative efforts to address *relatively* smaller difficulties. The second is that the President — any President — will need significant flexibility in dealing with the controversies that will inevitably arise between the United States and China over the next several years. This is not a relationship that we can afford to put on automatic pilot.

CONCLUSION

Chairman Roth, Chairman Bereuter, Members of these Subcommittees, in these remarks, I have touched on only a very small proportion of the difficulties we can expect to encounter in the U.S.-China relationship generally and the commercial relationship with China specifically. Two others I would like to mention are i) the regular and disturbing growth in our trade deficit with China and ii) the justifiable apprehension that the transfer of sovereignty over Hong Kong from the United Kingdom to China will generate a certain number of new difficulties in Hong Kong and new points of controversy between China and the United States.

The larger trends, however, are very positive. Whether one is chronicling GDP growth or the treatment of dissidents, China has made enormous progress towards international norms and a better life for its people since its decision in 1979 to move towards a more open, more market-oriented society. In the same period, we have seen an explosion of business opportunities in China which American companies cannot ignore.

I would also note for the Subcommittees that the foreign currency reserves of Hong Kong and China combined total well over $100 billion, placing China behind only Japan for this important indicator of economic might.

As for the most recent developments, I believe they too have been more positive than negative. Here I have in mind, for example, China's commitment earlier this year to tough, new obligations with respect to the protection of intellectual property rights; Congress's strong expression of support in June for continuation of the MFN relationship with China; and the indications we have had recently that both Washington and Beijing may be interested in seriously addressing the obstacles to China's membership in the World Trade Organization.

The challenge for all of us is to keep the good news coming while responding but not overreacting to the bad. We believe that a serious effort to create a genuinely normal commercial relationship with China is one of the best tools we have for doing that.

Thank you.

NAM

Testimony of Lawrence W. Clarkson
Senior Vice President
The Boeing Company
Before the Subcommittee on Asia and the Pacific and The Subcommittee on International Economic Policy and Trade of The House Committee on International Relations
September 19, 1996

Mr. Chairmen, Members of the Subcommittee...

Good afternoon. My name is Larry Clarkson. I am the Senior Vice President for Planning and International Development at The Boeing Company. I am pleased to be here today to provide the views of The Boeing Company on what is indisputably one of the issues that will most dramatically affect our future competitiveness -- namely the future of U.S.-China commercial relations. While I am testifying on behalf of The Boeing Company, I would like to note that I am also wearing my hat as a Member of the Executive Committee of the U.S.-China Business Council, the principal organization of American companies engaged in trade and investment with China. I also have the pleasure of serving on NAM's Board of Directors with Bill Hudson.

Chairman Roth, Chairman Bereuter, I want to underscore Bill Hudson's acknowledgement of the strong leadership you both exerted on the issue of the annual renewal of MFN trading status for China. The impressive vote in June reflected your efforts and the support of a majority of both Subcommittees membership. Chairman Bereuter, I also want to commend you for your bold statement before the National Association of Manufacturers on the need to move beyond the divisive MFN debate. It was a clarion call for action by the business community, opinion leaders and the American public, which I can assure you did not fall on deaf ears.

I would like to put my remarks about China within the broader context of who we are at The Boeing Company. Sales last year were more than $25 billion. Today, Boeing directly employs approximately 110,000 people, most of whom are located in Washington State, Kansas, Pennsylvania and Alabama. Those numbers are growing, given the enormous

demand for commercial jet aircraft. Of these employees, approximately 70,000 are directly involved in the design, development, production and marketing of Boeing's full family of commercial aircraft, which includes the 737, the 747, the 757, the 767 and our latest model, the 777.

The Boeing Company and China: 25 Years and Counting

The Boeing Company's most important challenge today is maintaining access to the global market, including the worlds' fastest-growing market, China. Exporting is not a luxury for Boeing, it is our lifeblood. Unless we sell overseas, we cannot generate the billions of dollars of revenues required for us to design, produce and sell our products. Today, Boeing is in the enviable position of being one of this nation's premier exporters, delivering most of the aircraft we produce to international customers. Our 20 year forecast is that 70 percent of a rapidly growing market for commercial jet transports will go to international customers.

China is the largest and fastest growing international jetliner market. We estimate that over the next twenty years China's two dozen airlines will need more than $140 billion in new jet transports. To put this in perspective, China alone is expected to purchase twice as many aircraft as the next largest international customer -- the former Soviet Union -- and close to three times the procurement of Japan, which has historically been our largest international customer.

Today, airlines in China operate more than 240 Boeing airplanes. Earlier this year, we achieved a significant milestone when we delivered our first 777 to China Southern Airlines. With that delivery, every member of Boeing's full family of commercial jets is now in service in China.

We are proud of the role that we have played in bringing the magic of flight to ever-increasing numbers of Chinese citizens. There is no doubt that perspectives have widened and we believe that Chinese lives have been enriched as a result of Boeing's involvement in China. Transportation has, and will continue to play, a major role in opening up China and exposing the Chinese people to western culture and western ways of doing business. Engagement can work -- if we are provided the opportunity to engage.

This year, The Boeing Company is celebrating 25 years of working together with China. That relationship began with the purchase of 10-707s in 1972 -- a sale that was consummated shortly after President Nixon's historic visit to China -- and has broadened and deepened throughout the years.

The China Market: The Battlefield for Civil Aircraft Competitiveness

Despite our successful history in China, we face an uphill battle in maintaining a strong presence in this critical market. The U.S. and European civil aircraft industries recognize that China is the economic battlefield on which the future competitiveness of the industry could be defined. If Airbus Industrie can capture the China market, its goal of global market domination is enhanced significantly. If the United States maintains the lion's share of this market, our competitiveness will be better assured.

Airbus Industrie, and the European governments that support Airbus, clearly understand the linkages between Airbus Industrie's competitiveness and access to the China market. As a consequence Europe's trade and economic policies toward China have historically been more stable and predictable. There is no annual debate over extending MFN trading status to China. China is extended the same "standard" tariff treatment equal to that of other trading partners -- no better, no worse. Trade disputes are handled in a less confrontational environment that is typically more conducive to finding common ground.

The contrast between U.S. and European policies has not gone unnoticed in Beijing. Earlier this year, China ordered $1.5 billion in Airbus aircraft -- a clear signal that China appreciates the stability and predictability of Europe's policy.

Mr. Chairman, there is no doubt in our mind that our ability to sell in China would be dramatically improved if U.S. commercial policy toward China was more stable and predictable as well. The logic is simple -- stability and predictability in the relationship means fewer reasons for the Chinese government to slow down the procurement process. Today, we have more than $6 billion in Chinese airlines orders outstanding -- many of which are close to being consummated. Because of the key role of the Chinese government in airline purchases, it is understandable why our sales have not been finalized. It would

be difficult -- and perhaps imprudent -- for any government to announce multi-billion procurements when U.S. economic sanctions were pending, we were at the brink of a trade war, or it faced the prospect of prohibitively high tariffs that would stop imports into the United States market, and reduce China's ability to pay for Boeing airplanes.

An Unpredictable Commercial Relationship

Mr. Chairman, the current unpredictable state of U.S.-China commercial relations is the direct consequence of a lack of a solid underpinning for U.S.-China commercial policy. Unfortunately the policy rests on a number of dated concepts. From a historical context, the dramatic decision to extend MFN to communist countries under certain conditions (the 1974 Jackson Vanik amendment) was clearly a breakthrough in establishing the terms under which the U.S.-China commercial relationship could move forward. After normalization of the relationship in 1978, the United States negotiated a bilateral trade agreement with China. In 1979 President Carter granted a waiver from Jackson-Vanik requirements, and MFN tariff treatment was extended to China. This evolution of U.S.-China commercial policy coincided with the dramatic reforms then being promulgated by Chinese Vice Premier Deng Xiaoping. There is little doubt that these U.S. steps furthered the economic and political relationship between two important countries and reinforced Deng's vision of a more market-oriented, globally-oriented China.

Today we need to reexamine the foundation of U.S.-China commercial policy -- and bring it up to date. The stakes for the United States and China could not be higher. Today, China is the fastest growing U.S. export market. U.S. exports to China in 1995 increased by more than 25 percent over 1994 levels. U.S. investment in China totals more than $20 billion. Hundreds of thousands of U.S. jobs can be attributed to trade with the PRC. China has become an important supplier to U.S. markets in a wide variety of consumer and light industrial goods. And a large and constantly increasing number of U.S. firms, like The Boeing Company and its thousands of suppliers across America, now consider successful business relations to be essential to their long-term global competitiveness.

Commercial Normalization -- The Time Has Come

Against this backdrop, the need for a normal U.S.-China commercial relationship becomes all the more apparent and necessary.

When I speak about commercial normalization, I am referring to two sets of policy objectives that would recharacterize U.S.-China economic relations. The first would be to end the annual, divisive debate over China's MFN trading status and grant such trading status permanently. The second would be to complement the current bilateral trade relationship with a multilateral relationship and multilateral dispute settlement.

Commercial normalization with China will not be easy to achieve. It involves changing, rather than maintaining the status quo. It involves weathering criticism that we are rewarding China. Despite the obstacles, commercial normalization is the right thing to do -- for American firms, American workers, and American children whose economic and security needs can be better safeguarded by a China that abides by international rules, rather than by operating outside of the system.

People across the United States must understand that permanent MFN for China is not a gift that we bestow upon the Chinese for good behavior. Permanent MFN is standard tariff treatment that the United States extends to virtually every other country. The threat of withdrawing MFN -- which even its critics acknowledge is inadequate to address U.S.-China problems -- only serves to poison U.S.-China relations, stymies quiet and more effective diplomatic efforts to address the many outstanding issues between our two countries, and places important U.S. business interests and the jobs of Americans at risk. Permanent MFN for China is in our national interest because we, as an nation of producers and consumers, benefit greatly from China trade, and the stability of permanent MFN will further promote the development of our commercial relations.

We also believe it is important that the American people more clearly understand the benefits of having China become a full member of the international trade regime, the World Trading Organization. It makes little sense to have a growing economic superpower operating outside of the rules that everyone else is bound by. I am not arguing that China's accession be merely a political decision. It cannot be. We all worked too hard to strengthen the GATT system through the Uruguay Round negotiations. We must begin to more clearly outline the benefits of having China in the WTO as well as the obligations that China will have to live by as a member of the WTO.

Many in the United States are fearful about China's emerging economic superpower status and its effect on American competitiveness and U.S. jobs. These concerns must be addressed. But, we must also acknowledge and accommodate China's concerns that their WTO accession be undertaken in a manner to avoid the economic and social dislocation that too rapid a movement toward a market economy might entail. And we must agree that once the arduous process of China's WTO protocol is completed and the rules are in place, the United States will pursue trade issues governed by the WTO through the WTO mechanisms designed to address these issues.

Mr. Chairman, I have outlined for the Subcommittee today, what we believe is a sound, forward looking policy in the area of U.S.-China commercial relations. It is a policy that would reinforce this nation's historic commitment to the policy of engagement with China and increase the chances that engagement will yield the handsome benefits it is intended to achieve. I have pledged Boeing's efforts and those of many in the business community who are working to normalize U.S.-China commercial relations.

While commercial normalization is clearly in the interests of U.S. firms and workers, I am also realistic enough to understand that this policy shift depends upon China's actions as well. As we move forward to strengthen the economic relationship, China too will need to demonstrate the importance it attaches to such an improved relationship -- in deeds and in words.

While we debate the future of U.S.-China commercial relations today here in Washington, D.C., we can imagine a similar debate ongoing in Beijing. The debate like our debate, will

likely be between those who want to become more integrated into the global economy and those who would build walls. Messieurs Chairmen, just as political normalization and the economic benefits that followed reinforced Chinese President Deng's efforts toward China global integration, your forward movement on commercial normalization could reinforce China's pro-trade, market-oriented reforms. It could, in fact, be a decisive moment in helping to build relationships to ensure that the China of the future is a strong ally and a fair and respected trading partner of the United States.

Thank you.

Minxin Pei, Ph.D.
Assistant Professor
Politics Department
Princeton University

September 19, 1996

House Committee on International Relations
Subcommittee on Asia and the Pacific
Subcommittee on International Economic Policy and Trade

Mr. Chairman and members of the committee:

I want to thank you for giving me this valuable opportunity to present this analysis of the trends of political development in the People's Republic of China and their implications for U.S.-China relations.

It is widely recognized that a cooperative U.S.-China relationship serves many critical American national interests. At the same time, however, it must also be recognized that important differences in the two nations' political systems, cultures and values have been a major source of friction in this relationship. Therefore, one of the long-term goals of a healthy U.S.-China relations is to reduce these differences. To put it differently, a politically sustainable relationship can be better maintained when internal political evolution in the People's Republic of China begins to narrow these differences.

Many critics of China and of the U.S. policy of comprehensive engagement toward China have argued that despite rapid economic reform and growth in China in the last two decades, there is little movement toward political opening in China. Such critics contend that human rights conditions in China have not improved in the last 20 years and that the political system has remained a totalitarian one.

These assertions, however, are contradicted by the facts and evidence gathered by the scholarly community that show a slow but steady process of political opening in the People's Republic of China. Two primary forces are behind this process: an emerging internationally oriented market economy and pressures for political opening originating from within the Chinese political system and society.

Of course, it must be admitted that human rights conditions in China are below the prevailing international standards. It is evident that much improvement in human rights is needed and desirable in China. While we recognize the need of such improvement, there is wide difference as to the most effective means of improving human rights in China. Based on historical experience worldwide and mainstream academic theories, sustained improvement in human rights can be gained by economic modernization and political liberalization. Recent experience in most developing countries also shows that sustained economic modernization is a powerful force for political liberalization.

In the case of China, rapid economic development in the last two decades has not only raised the standards of living for average Chinese, reduced poverty on a massive scale, and opened China to the world, but also gradually improved human rights in many important ways and become a considerable force for political liberalization. Indeed, the quiet evolution of the Chinese political system has remained an untold, but significant, story of contemporary China. Let me briefly present evidence for the progress in these important areas: human rights and

political opening.

I. Economic Liberalization and Improvement in Human Rights

As a result of the government's abandonment of the radical Maoist ideology of class struggle, the level of political repression has fallen dramatically since the end of the Cultural Revolution (1966-76). According to academic researchers in China, the number of political prisoners has been greatly reduced. In the mid-1970s (during the dark days of the Cultural Revolution), political prisoners made up nearly 30 percent of the jail population. In 1980, this figure fell to 10 percent. In 1989, political prisoners made up only 1 percent of the jail population (the increase was mainly due to the arrests of pro-democracy activists in the aftermath of the Tiananmen Incident). In the mid-1990s, it is estimated that about two-tenths of a percent (around 2,000) of all jail inmates were political offenders. Moreover, the punishment against political dissidents has also been put within certain informal limits. For example, death penalty against political offense has been informally abolished; jail terms for dissidents have been capped, in most cases, under seven to eight years.

There is significant progress in other aspects of human rights. For instance, basic civil liberties such as the freedom of travel, employment, and residence have expanded greatly. Hundreds of thousands of Chinese citizens have emigrated, visited, and studied in the West, especially the United States. Tens of thousands of Western professionals and professors have taught and worked in China. Tens of thousands of Western businesses have been set up in China. A beneficial byproduct of the economic opening of China is an enormous increase in the availability of information for the Chinese people, from both internal and external sources. As someone who grew up in China, I recall the days when one billion people were not allowed to listen to foreign broadcast (an offense punishable by long jail terms in those days) or watch foreign films (all Western films were banned during the Cultural Revolution). Fortunately, those bad old days are history. Today, despite the government's attempts to control the flow of information, the Chinese people can gain access to all sorts of information through foreign publications (and their Chinese translations), imported foreign films and videos, contact with millions of foreign visitors, and the Internet. The flow of internal information has also become much freer. Today, private entrepreneurs dominate China's book retail sector and exercise enormous influence in the print media (such as book and magazine publishing). Media discussion of important public policy issues has also become considerably freer (although most journalists refrain from directly challenging the political dominance of the Communist Party). A limited degree of liberalization has also occurred in the electronic media. Television programs now feature sit-coms that poke fun at the government and its officials. A few TV series even explored some of the politically sensitive topics in recent Chinese history (i.e., such as the forced

settlement of urban youths to the countryside during the Cultural Revolution).

II. "Creeping Democratization" in China

Although Deng Xiaoping's government has placed an exclusive emphasis on economic reform, limited political reforms have been adopted in China in the last two decades. Although such reforms have not fundamentally changed China into a modern democratic society, they constitute a welcome beginning. If the progress toward political opening continues, it is conceivable that the pace of political liberalization will accelerate in China in the early part of the next century.

Of the limited political reforms, progress so far has been more noticeable in three areas: the strengthening of the National People's Congress, the enhancement of the legal system, and the introduction of free elections of village governments in rural China.

The National People's Congress

A center-piece of political reform in the Deng era has been the strengthening of the autonomy of the National People's Congress (NPC) and the emergence of the NPC as an important player in the decision-making process. A key factor for the growing role of the NPC in China's lawmaking process was the decentralization of power that was part of the general trend of reform in the last 20 years. As the CCP relaxed its control of society and the economy, it delegated many routine governmental functions to specialized agencies that are separate from the CCP.

This nominal arrangement of power sharing enhanced the legitimacy of the NPC in protecting its own "turf." Its delegates now propose new legislation, subject proposed laws to lengthy debate, and offer amendments. Although the NPC has rarely voted down a law, China's lawmakers can force substantive revision in the contents of legislation and openly voice their disapproval by voting against and refusing to vote for certain legislation as a form of political protest. Such assertiveness was clearly demonstrated in the passage of several important laws, such as the Enterprise Bankruptcy Law (1986), the Central Bank Law (draft, 1995), and the Education Law (draft, 1995). In 1993, after the NPC rejected five drafts of a company law written by the ministries under the State Council, it then wrote its own version and approved it in December 1993, marking a legislative milestone in the NPC history because this was the first law exclusively written by the NPC, and not by the CCP or the State Council.

The NPC and local people's congresses (PCs) have emerged as potential counter-weight to the power of the Communist Party as these legislative bodies begin to have an influence in the selection and confirmation of key government officials.

In several provinces, local people's congresses voted down the nominations of senior provincial officials and selected candidates not endorsed by the local party organizations. As a testimony to the changing political norms in China, the CCP accepted such outcomes. In the March 1995 session of the NPC, a third of the deputies effectively voted against the nomination of CCP Politburo member and Jiang Zemin protege, Jiang Chunyun, to be one of the vice-premiers.

The NPC's 1996 session provided new evidence of the institution's increasing assertiveness. As a display of their dissatisfaction with the government's performance in law enforcement, 30 percent of the NPC deputies voted against or abstained from supporting the report given by China's top prosecutor on law enforcement and anti-corruption. Nearly 20 percent of the deputies refused to approve the report given by the chief judge of the Supreme Court. More important, the NPC pushed through a landmark legal reform with a sweeping revision of the 1980 criminal code. Among other major changes, the new law, which would take effect on January 1, 1997, establishes the assumption of the innocence of defendants. It bans the police from holding a suspect for more than 30 days without an arrest warrant (under the old law, administrative detention can last 3 years). The new criminal code has expanded suspects' rights to legal counsel by allowing them to consult a lawyer after being interrogated by the police (the old law allowed access to legal counsel only shortly before trial). The enacted reform measures, if fully implemented, would also give judges more power and permit them to be impartial referees in the court proceedings.

The NPC has also gained a role as a privileged forum for voicing public sentiment and redressing individual grievances. As mentioned above, an increasing number of citizens now choose to contact NPC and local PC delegates to make complaints. Each year the NPC's central office receives more than 100,000 letters from private citizens requesting help. Chinese media often report personal interventions by influential NPC members in cases of miscarriage of justice by the government.

At the sub-national level, provincial and municipal people's congresses have begun to guard their emerging autonomy by nominating their own candidates as deputies to the NPC, rather than simply accepting those designated by the government. In 1988, such locally-initiated nominees made up about 15 percent of the candidates for deputies of the NPC. There were also reports of local deputies abstaining in large numbers from voting for government-designated deputies for the NPC.

The Changing Legal System

China's efforts to establish a system of law through extensive legal reforms since the late 1970s have been extensively studied by Western scholars. Although

the leadership's original intention was not to build the rule of law, its program of limited legal reforms has generated a considerable momentum toward establishing legal rules and norms that play an increasing role in China's political, economic, and social activities. In sheer numbers of laws passed by the NPC in a given time period, China's program of legal reform appears very impressive. Between 1979 and 1992, the NPC enacted more than 600 laws; provincial and local people's congresses passed 2,300 laws during the same period. In this fast-paced process of legislation, China's law-writers heavily borrowed from Western legal doctrines, concepts, frameworks, and technical terms. On the surface, therefore, many Chinese laws appear quite similar to Western laws.

The real difficulty of establishing a rule of law is, of course, not in the content of the law, but in the enforcement of the law. China's progress in this area has been frustratingly slow because its record of enforcement of existing laws is poor. According to the office of research of the Supreme Court, of the 302,497 commercial cases adjudicated by the courts in 1993, 146,801 (about 50 percent) had not been enforced at the end of the year. This finding was consistent with other estimates that suggested that the enforcement ratio of court decisions was about 50 percent.

Despite such poor enforcement record, China's embryonic legal system has had a subtle impact on social and political norms and public awareness of their legal rights. This has resulted in a form of public legal activism that bodes well for the eventual development of the rule of law in China. A telling case in point here is a law that permits Chinese citizens to take the government to court for wrongful exercise of administrative power. Known as the "Administrative Litigation Law," it became effective in October 1990 and marked a milestone in China's legal reform. Before its passage, victims of abuse of power by Chinese officials had no recourse to justice, although a handful of bold citizens had tried to take the government to court for violations of their constitutional rights. Government figures show that about 44,000 such lawsuits had been filed by private citizens between 1983 and 1990 (averaging about 10,000 a year at the end of the 1980s). After the passage of the law, the number of lawsuits filed against the government rose dramatically, reaching 25,600 in 1991. The number of such suits filed in 1992 and 1993 averaged 27,000, with citizens winning about 20 percent of the suits. A large proportion of these suits brought against the government fell in the category of the definition and protection of private property rights and economic freedom. These instances suggest that such laws have provided a valuable resource for ordinary Chinese in asserting their civil and economic rights.

The most pervasive impact of China's legal reform is that on the country's economic activities. In an unreformed planned economy, laws played almost no role in enforcing contracts. But as China hurtled toward a market economy, the demand for legal enforcement of contracts arose. In the mid-1990s, China's courts assumed a central role in adjudicating economic disputes. In 1984, the legal system handled

only 90,000 cases related to commercial disputes. By 1993, the number had risen to 900,000. Although the poor enforcement record of court decisions in China creates serious doubts about the exact extent to which property rights are effectively protected, the removal of the day-to-day power of adjudicating economic disputes from the CCP and the state bureaucracy to courts of law is very likely to create a strong institutional incentive for these organizations to build and defend their autonomy and reputation, initiating a process of transforming a system of law into the rule of law.

Another important factor for the gradual development of the rule of law in China has been the rapid growth of a professional legal community. The number of lawyers rose to 90,000 in 1995, and was expected to exceed 150,000 by the end of this century. In 1995, this community formed its national association, the All-China Lawyers Association. It is officially independent from government control. As a sign of its autonomy, the association's members voted out the officials of the association that had been appointed by the Ministry of Justice, and elected a new slate of candidates chosen by the members. Some members of China's legal community have become active in social causes. For example, the Law School of Wuhan University has set up a "Center for the Protection of the Rights of the Weak." It has more than 40 members who are the school's faculty, graduate and undergraduate students. They perform pro bono legal work for ordinary citizens who were unjustly treated by the legal system or the government. They have gained a national reputation for defending citizens' rights. In one case, they successfully sued the police in Hangzhou for illegally detaining and searching a suspect, and won a 700 yuan judgment against the police. They also defended a private entrepreneur wrongly accused of sexual harassment and sentenced to hard labor.

The above signs indicate that China's evolving legal system will most likely become a focal point upon which the emerging political and economic forces in China -- politically conscious citizens trying to defend their rights, private entrepreneurs seeking to protect their property and enforce contracts, and opposition groups attempting to challenge the regime in new institutional settings -- will converge.

Experimental Democracy in the Villages

In the 1980s following successful agricultural reforms, Chinese leaders became aware of the vital need to fill the political vacuum created by the deterioration of the CCP grassroots organizations. Although the first local rural self-governing body, the village committee, was organized spontaneously by peasants themselves without any support from the government and the CCP, the Chinese leadership immediately recognized the usefulness of such self-governing institutions in rural China. Rejecting the options of re-imposing the tight CCP control and of appointing village officials, the government endorsed the idea of allowing rural residents to elect their

own leaders. Some senior CCP leaders, most notably Peng Zhen who was the head of the NPC in the early 1980s, enthusiastically promoted self-government in rural China. In 1982, the amended Chinese Constitution granted legal recognition to village committees as a form of local civic organization. Peng was the driving force behind the passage by the NPC, in November 1987, of "The Organic Law of the Village Committees of the PRC," which further sanctified the legal status and administrative functions of village committees.

In terms of administrative function, the village committees perform the role of executive councils that manage day-to-day affairs. However, the newly formed village committees frequently are faced with difficult decisions that they lack the necessary authority to make. Therefore, between the late 1980s and early 1990s, another institutional form -- the villagers representative assembly -- was adopted to expand political participation in rural China. Such assemblies complement the village committees and provide their decision-making with a higher degree of popular legitimacy. Elected assembly representatives participate in the most important decisions made by the village committee (such as the budget and major public expenditures), monitor and evaluate the work and performance of the members of the village committee. Surveys of Liaoning, Jiangsu, and Shandong show that an average assembly consists of 35 representatives (one for 10-15 households), all of whom are elected together with the members of the village committees (i.e., there are two concurrent elections, one for the village committee and the other for the representative assembly). By 1994, a government study estimated that at least half of the Chinese villages had elected such assemblies.

This form of rural self-government spread quickly. By the beginning of 1985, the government reported that nearly one million village committees had been formed. By 1995, 24 provinces (out of 30) had passed local legislation on village committees. Despite the temporary setback following the Tiananmen crackdown in 1989, rural self-government continued after the revival of economic reforms in 1992. According to a report by an American mission sent to observe rural self-government in China, more than 90 percent of the village committees were formed through local elections in the mid-1990s, and 20 provinces had held two rounds of elections by 1992. In 1996, 18 provinces will hold the third round of village elections. In addition to encouraging all villages to hold elections, the central government selected 63 counties (comprising 3,917 towns and 82,266 villages) between 1990-95 as "demonstration sites," which received more technical help and supervision from the Ministry of Civil Affairs in conducting elections.

Because the relative short history of this experiment in self-government and the enormous regional variations, it is difficult to assess its impact on the governance of rural China. While some newly elected village committees performed the role of local government effectively, others barely functioned. According to one news report, about 20 percent of village committees in Fujian were "paralyzed or semi-

paralyzed" in the late 1980s. In villages where experimental self-government has been successful, voter turnout was high. One official document reported a turnout rate of 90 percent in seven provinces sampled by a study team. The level of competition of these elections differed from one area to another. While some elections featured multiple candidates for slots on the village committees, others were hardly competitive. One report showed that non-CCP candidates won about 30 percent of the elections for chair of village committees in demonstration jurisdictions in three provinces. Many CCP incumbents have failed to be re-elected. In the 1991 elections in Fujian, 51 percent of the 11,930 directors of village committees were members of the CCP.

Although no comprehensive study has been carried out to measure the improvement of local governance as a result of the introduction of self-government in rural China, there is some indication that this institutional innovation may offer a viable solution to the decline of the communist party-state in the countryside. The Chinese official press has carried numerous reports of the considerable improvement in law and order in those villages where free elections have been held. The management of village finance, provision of social services, and implementation of government policies reportedly have also improved in these villages.

This bold experiment in rural self-government represents an historic step toward democracy in a part of China where nearly 80 percent of the population resides. Despite its slow progress and flaws, one must not underestimate the enormous potential of this institutional innovation. The electoral procedure will gradually gain legitimacy, and the electoral cycle can constrain the exercise of power by rural officials. A higher standard of local governance and greater transparency may also come out of the competitive dynamics of elections. This process may have already started in villages where the experiment has taken root. Several elected village officials professed that they remembered the number of votes they received in the last election and knew when they were up for re-election. The trend toward genuine self-government in rural China seems hardly reversible.

III. Policy Implications for U.S.-China Relations

The under-publicized political opening in China discussed above provides a strong support for a policy of comprehensive engagement toward China. If anything, the above evidence demonstrates the enormous success of such a policy which has been undertaken by the last six administrations. Such a policy has not only contributed to the astonishing economic progress in China in the last 20 years but, when pursued with renewed vigor and strong Congressional support, will yield perhaps even more rewarding benefits such as China's continued internal political opening and greater cooperation with the U.S. on other critical issues.

It is well-known that U.S.-China relations nearly collapsed in the past year due to conflicts over trade issues, human rights, and Taiwan. Fortunately, recent efforts by Washington and Beijing have stopped further deterioration. In this respect, the Clinton Administration must be commended for supporting China's MFN status, re-affirming America's one-China policy, and sending National Security Advisor Anthony Lake to China in July for the first high-level exchange in the last two years. Moreover, the decisive vote by the House of Representatives this June against revocation of China's MFN is also a welcome sign of an emerging bipartisan China policy. Finally, China's cooperation in reaching treaty on banning nuclear tests also signals Beijing's resolve to be a cooperative player in the international community.

However, it must also be recognized that although U.S.-China relations have been temporarily stabilized, they remain fragile. Many important issues remain to be resolved. If left unattended, minor disputes can fester into major conflicts and cause new ruptures in this relationship. Recognizing that a rising China inevitably poses many challenges to American foreign policy, one must be realistic enough to understand that although China and the United States do not have fundamental conflicts, these problems are difficult and require persistent and long-term attention. One of the most glaring gaps in recent bilateral relations is regularized high-level exchanges between Washington and Beijing. Such exchanges should be enhanced to reduce mistrust and misperception.

For the short-term (following the elections in the fall), the new Administration and incoming Congress should seriously consider new means of engagement with China. The new China policy must address the most fundamental issues in U.S.-China relations. They are: the U.S. respect for Chinese sovereignty in general, and re-affirmed commitment to a one-China policy in particular; China's commitment to its bilateral treaty obligations; the U.S. declaration of its support for further integration of China into the international community.

Of these three challenges, let me focus on the first: respect for China's sovereignty and U.S. commitment to its one-China policy. The status of Taiwan has been the most difficult issue in U.S.-China relations. The rapid decline of U.S.-China relations in the past year was triggered by Taiwan's President Lee Teng-hui's visit to the U.S. in June 1995. From Beijing's point of view, President Lee has been embarking on a course of "creeping independence" in the last few years. A centerpiece of President Lee's strategy for an independent Taiwan, according to both leaders in Beijing and most impartial observers of U.S.-China relations, is to obtain American political, and eventually military, support. This explains the harsh reaction from Beijing to this ostensibly private visit.

Moreover, Congress' handling of the Taiwan issue in U.S.-China relations is further complicated by Taiwan's extensive and effective lobbying on Capitol Hill and

China's poor public image here. It is conceivable that many members of Congress are not fully aware of this complicated issue and its central importance in a viable U.S.-China relations. According to one poll conducted by the Wirthlin Group in April this year, only 46 percent of U.S. lawmakers said that they were highly familiar with China-related issues. It has also been reported that many members are not familiar with the terms of the three U.S.-China joint communiques.

The situation is very different on the other side, however. As a legacy of China's humiliation at the hands of foreign powers in the last 150 years, Taiwan remains one of the most emotional political issues in China. All Chinese are unified on this issue and support their government's policy of maintaining China's sovereignty over Taiwan. No political leaders in China can survive if Taiwan is "lost" on their watch. Thus, it would be irresponsible to treat as bluffing China's warnings on the disastrous consequences of an open declaration of independence by Taiwan. Any third-party efforts, however well-intentioned, to help Taiwan gain its statehood will only irreparably harm the people of both China and Taiwan.

While China has taken an unnegotiable position on the status of Taiwan, it has been willing to maintain the status quo. Although it has not renounced the use of force in case of a declaration of independence by Taiwan, China has repeatedly underscored its goal of peaceful reunification. Before the visit by President Lee last year, this policy had yielded significant benefits for both sides. A semi-official dialogue had been initiated. Commercial and cultural exchanges were booming. Although one cannot condone the use of force in resolving the Taiwan problem, most knowledgeable observers of China and Taiwan agree that the impetus to change the status quo originated in Taipei, not Beijing. Although one may attribute such impetus to the personal convictions of Taiwan's leaders and popular pressures from an increasingly democratic society, the fact remains that efforts taken to boost Taiwan's international status have done enormous harm to mainland China-Taiwan relations and to U.S.-China relations.

There is no short-term solution to the Taiwan problem. Although one may hope that China's internal political evolution will one day make the solution of this problem easier, in the short-term, Beijing, Taipei, and Washington must exercise utmost self-restraint. In particular, the Administration and Congress must reach a consensus that it is in the fundamental interest of the United States to maintain the status quo and that the U.S. should oppose any unilateral effort to alter it.

Therefore, a top priority for the U.S. government is to re-affirm its one-China in strong and explicit terms. Given the importance of the U.S.-China relations to world peace and prosperity, the new administration and Congress should give serious consideration to the annunciation of a new set of principles governing U.S.-China relations. Secretary of State Warren Christopher's important speech on U.S. policy toward China in May this year embodies several key elements of such principles and

should provide a basic framework for a new U.S.-China joint communique on bilateral relations. Preliminary efforts should be made quickly to explore the possibility of such a joint communique, which should be ideally ready for signing in one of the summit meetings in the next year or so.

In addition, the new China policy must regularize high-level exchanges between the Administration officials and their Chinese counterparts and broaden exchanges between the legislative and judiciary branches of the two countries. More specifically, it will be extremely helpful for Congress to establish a channel to China's nascent parliament. More members of Congress should be encouraged to visit China to gain a deeper understanding of the enormous challenges facing that country. With the cooperation from Beijing, technical assistance may be provided to rural self-government and the improvement of the legal system to help speed up the pace of political modernization in China.

Mr. Chairman, whether a cooperative U.S.-China relationship can be restored and sustained requires efforts from both sides. If I were given a similar opportunity to present my views to the Chinese leadership, I would strongly urge them to do their part to improve this relationship. I am sure that hearings such as this will send Beijing a strong signal that Congress will be willing to work with the Administration to maintain a stable relationship with China. Let me again thank you and members of the committee for conducting this hearing.

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